Chain Store Age
EXECUTIVE
January 1991/Section 2

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FAX: 514-694-6886

# CONTENTS

A total of 160 companies participated in the Twelfth Annual Ounce of Prevention survey. These retailers supplied us with information on shrinkage, loss prevention expenses, apprehensions, the physical inventory process and the most effective security devices. This information has been detailed in this report, and the result is Ernst & Young's complete analysis of loss prevention. The co-sponsor of the survey is the International Mass Retail Association.

The report begins with a section on overall findings and continues with separate sections by segment. To bring our statistics to life, we have also produced case studies on loss prevention strategies at The Broadway and Saks Fifth Avenue, as well as an account of a unique "sting" operation in the Chicago area. An appendix containing additional material appears at the end of this report.

We would like to express our gratitude to the executives who participated in this study.


5 Highlights and Methodology

6 Overall Findings

12 Department Stores

20 Drug Chains

26 General Merchandise/ Mass Merchants

32 Specialty: Apparel

40 Specialty: Hardlines

46 Supermarkets

48 Case Study: The Broadway

58 Case Study: Saks Fifth Avenue

62 Case Study: Chicago Crime Story

64 Appendices

64 Acknowledgments

# HIGHLIGHTS AND METHODOLOGY

The cost of shrinkage and loss prevention remains at an all-time high. In 1989, our survey participants spent $363.5 million, or 0.32% of sales, trying to prevent shrinkage, yet their shrink losses were 1.91% of sales at retail.

As you read the survey, please keep the following points in mind:

- The pool of retailers who participate in this survey changes from year to year. Therefore, it is not accurate to compare data published in this report to data present in past surveys.
- Some participants did not answer every question. Therefore, it may not be accurate to compare data in one table to data in another table. Questionnaires that were substantially incomplete were not tabulated.
- Because some of the questions allowed multiple answers, tallied responses do not always total 100%.
- The individual participant data is confidential; survey responses were received and reviewed only by Ernst & Young.

**SURVEY DEMOGRAPHICS**

| | PARTICIPANTS BY 1989 SALES VOLUME* | | | | | | |
|---|---|---|---|---|---|---|---|
| | All Participants | Under $100 | $100 to $399 | $400 to $999 | $1,000 or More | 1989 Sales Total | 1989 Sales Average |
| Total Number of Survey Participants | 160 | 53 | 42 | 27 | 38 | $192,524 | $1,203 |
| Department Stores | 22 | 4 | 9 | 5 | 4 | 13,933 | 633 |
| Drug Chains | 10 | 1 | 1 | — | 8 | 24,388 | 2,439 |
| General Merchandise/ Mass Merchants | 27 | 5 | 8 | 4 | 10 | 101,005 | 3,741 |
| Specialty Apparel | 21 | 11 | 5 | 3 | 2 | 7,334 | 349 |
| Specialty Hardlines | 37 | 19 | 10 | 3 | 5 | 12,198 | 330 |
| Supermarkets | 19 | 6 | 2 | 7 | 4 | 19,884 | 1,047 |
| Other | 24 | 7 | 7 | 5 | 5 | 13,782 | 574 |

*All dollar amounts are in millions.

**LOSS PREVENTION STATS AT A GLANCE**

| | Average Shrinkage as a Percentage of Sales | | | | Average Loss Prevention Expenses as a Percent of Sales | Average Cost of Physical Inventory Taking per Company (in $ thousands) | Average Value of Merchandise Recovered at Retail per Apprehension in 1989 From | |
|---|---|---|---|---|---|---|---|---|
| | At Retail | | At Cost | | | | | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1989 | Employees | Customers |
| All Participants | 1.91% | 1.88% | 1.20% | 1.20% | 0.32% | $1,218 | $1,350 | $196 |
| Department Stores | 2.18 | 2.37 | — | — | 0.54 | 1,273 | 650 | 165 |
| Drug Chains | 2.33 | 2.18 | 2.13 | 2.05 | 0.22 | 4,752 | 349 | 48 |
| General Merchandise/ Mass Merchants | 1.82 | 1.80 | 1.01 | 0.76 | 0.33 | 2,362 | 801 | 87 |
| Specialty Apparel | 1.84 | 1.67 | 1.85 | — | 0.39 | 206 | 3,044 | 225 |
| Specialty Hardlines | 1.98 | 1.58 | 0.70 | 0.67 | 0.17 | 673 | 2,378 | 375 |
| Supermarkets | 0.93 | 1.05 | 1.38 | 1.50 | 0.22 | 547 | 592 | 107 |

## OVERALL FINDINGS

*One hundred sixty companies responded to this year's survey: 22 department stores, 10 drug chains, 27 mass merchants, 21 specialty apparel chains, 37 specialty hardliners, and 19 supermarkets. In addition, there were 24 mail order companies and other specialty retailers. In 1989, 38 of these companies had sales of $1 billion or more, 27 had sales in the range of $400 million to $999 million, 42 had sales in the $100 million to $399 million range, and 53 had sales of less than $100 million.*

*The respondents had an average of 264 stores/outlets. Department stores had the lowest average number of stores with 44, and drug chains had the highest average with 674 stores per company.*

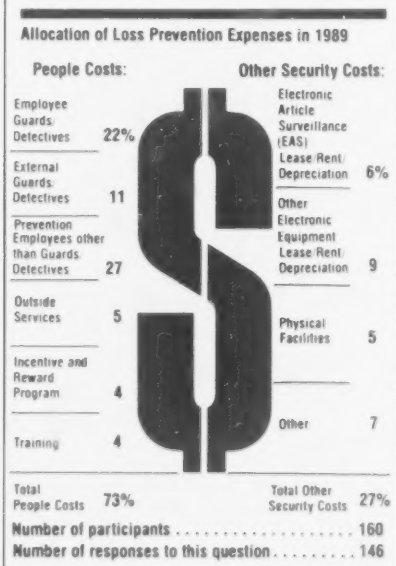
### Expenses and Capital Expenditures

On a same-respondent basis, loss-prevention expenses as a percentage of sales increased to 0.33% in 1989 from 0.31% in 1988. Companies with revenues of $1 billion or more had the lowest expenses as a percentage of sales in 1989—0.28%. Companies with revenues of $400 million to $999 million had the highest expenses at 0.35% of sales. Capital expenditures averaged $340,000 per company (based on 131 respondents) in 1989. On a same-respondent basis, capital expenditures increased by seven percent in 1989. EAS accounted for the greatest percentage of overall capital expenditures. This year it accounted for 38%, though it did decline from the 1988 figure of 41%. Alarms accounted for 27% and other electronic equipment accounted for 30%.

**ANALYSIS OF LOSS PREVENTION EXPENSES**

| | All Participants | | Participants by 1989 Sales Volume in $Millions | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Under $100 | | $100 to $399 | | $400 to $999 | | $1,000 or more | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| Total Number of Survey Participants | 160 | 160 | 53 | 53 | 42 | 42 | 27 | 27 | 38 | 38 |
| Average Expenses as a Percent of Sales | 0.32% (147) | 0.31% (142) | 0.34% (46) | 0.29% (44) | 0.33% (38) | 0.34% (35) | 0.35% (26) | 0.32% (26) | 0.28% (37) | 0.27% (37) |
| Average Expenses (in $ thousands) | $2,473 (147) | $2,161 (140) | $148 (47) | $120 (44) | $724 (37) | $692 (34) | $2,145 (26) | $1,933 (25) | $7,406 (37) | $6,090 (37) |
| Total Expenses (in $ thousands) | $363,504 (147) | $302,514 (140) | $6,945 (47) | $5,301 (44) | $26,776 (37) | $23,535 (34) | $55,761 (26) | $48,335 (25) | $274,022 (37) | $225,343 (37) |

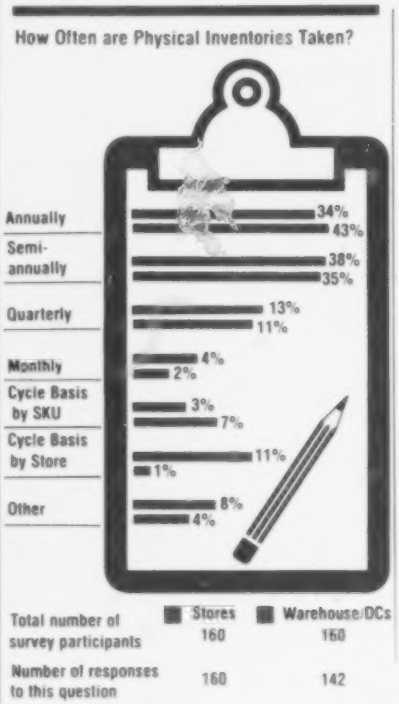
( ) = Number of responses to this question.


Allocation of Loss Prevention Expenses in 1989
People Costs:
Other Security Costs:
Employee Guards/Detectives 22%
External Guards/Detectives 11
Prevention Employees other than Guards/Detectives 27
Outside Services 5
Incentive and Reward Program 4
Training 4
Electronic Article Surveillance (EAS) Lease/Rent/Depreciation 6%
Other Electronic Equipment Lease/Rent/Depreciation 9
Physical Facilities 5
Other 7
Total People Costs 73%
Total Other Security Costs 27%
Number of participants ..... 160
Number of responses to this question ..... 146

People costs accounted for the lion's share of loss prevention expenses—73%. Internal and external labor accounted for over 50% of loss-prevention expenses at every segment except specialty apparel stores, where the figure was 48%. People costs include labor for employee and external guards/detectives, other loss prevention employees, outside services, incentive and reward programs, and training programs.

For repondents with revenues below $100 million, people costs accounted for 62% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 81%; for companies in the $400 million-$999 million range, their costs were 73%; and for companies with revenues over $1 billion, people costs accounted for 78% of loss prevention expenses.

# OVERALL FINDINGS




## Physical Inventory Approaches

A critical internal control in the inventory management process is the taking of a physical inventory. Because physical inventory-taking practices are diverse, Ernst & Young conducted an in-depth survey of this area for the first time.

Seventy-two percent of our participants took physical inventories annually or twice a year. In the warehouse/DC, 78% of the 142 companies responding to this question took inventory once or twice a year. In the warehouse/DC, 54 respondents took inventory in one day, 13 took it in one-and-a-half days, 29 took it in two days, and 14 took it in three days. Twenty-four respondents with warehouses under 75,000 feet took it in one day; 10 respondents with warehouses 75,000-150,000 feet took it in one day and nine took two days; 11 respondents with warehouses 151,000-350,000 feet took it in one day and eight took it in two days; and nine respondents with warehouses more than 350,000 feet took it in one day while nine others took two days.

Of the 148 companies responding, 110 took store inventory in one day or less. Seventy-five percent of respondents with stores 20,000 to 49,999 feet performed the physical in one day or less; 79% of respondents with stores 50,000 to 99,999 feet completed it in one day; 71% of respondents with stores 7,500 to 19,999 feet performed it in one day or less; and 80% of respondents with stores under 2,500 feet took it in one day or less.

| Participants by Retail Store Size in Square Feet | HOW MANY DAYS DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY? Number of Days | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Under 1 | 1 | 1½ | 2 | 2½ | 3 | Over 3 | Total |
| Under 2,500 | 2 | 10 | 2 | — | 1 | — | — | 15 |
| 2,500 to 7,499 | 3 | 18 | 3 | 2 | — | — | — | 26 |
| 7,500 to 19,999 | 5 | 17 | 5 | 4 | — | — | — | 31 |
| 20,000 to 49,999 | 4 | 26 | 2 | 4 | — | 4 | — | 40 |
| 50,000 to 99,999 | — | 22 | 1 | 3 | 1 | — | 1 | 28 |
| 100,000 or More | — | 3 | 2 | 3 | — | — | — | 8 |
| All Participants | 14 | 96 | 15 | 16 | 2 | 4 | 1 | 148 |
| Participants by Warehouse/DC Size in Square Feet | | | | | | | | |
| Under 75,000 | NA | 24 | 3 | 3 | — | — | — | 30 |
| 75,000 to 150,000 | NA | 10 | 2 | 9 | 1 | 2 | 1 | 25 |
| 151,000 to 350,000 | NA | 11 | 4 | 8 | 3 | 5 | — | 31 |
| Over 350,000 | NA | 9 | 4 | 9 | 3 | 7 | 3 | 35 |
| All Participants | NA | 54 | 13 | 29 | 7 | 14 | 4 | 121 |

NA = not applicable

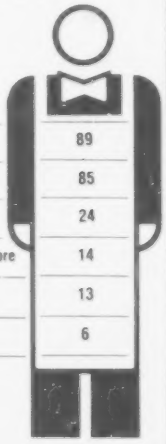
# OVERALL FINDINGS

## HOW MANY PEOPLE DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY?

| Participants by Retail Store Size In Square Feet | Average | Minimum | Maximum |
|---|---|---|---|
| Under 2,500 | 11 (15) | 1 (4) | 85 (1) |
| 2,500 to 7,499 | 8 (26) | 1 (1) | 20 (1) |
| 7,500 to 19,999 | 18 (30) | 3 (1) | 70 (1) |
| 20,000 to 49,999 | 31 (40) | 5 (1) | 120 (1) |
| 50,000 to 99,999 | 75 (28) | 2 (1) | 200 (2) |
| 100,000 or More | 168 (8) | 85 (1) | 300 (1) |
| All Participants | 38 (147) | 1 (5) | 300 (1) |
| **Participants by** | **Average** | **Minimum** | **Maximum** |
| Under 75,000 | 17 (31) | 2 (2) | 100 (1) |
| 75,000 to 150,000 | 37 (25) | 3 (1) | 140 (1) |
| 151,000 to 350,000 | 57 (31) | 8 (1) | 360 (1) |
| Over 350,000 | 89 (35) | 10 (1) | 300 (1) |
| All Participants | 52 (122) | 2 (2) | 360 (1) |

Total number of survey participants 160
( ) = Number of responses to this question

### Who Takes Store Physical Inventories?



| | |
|---|---|
| An Inventory Taking Service | 89 |
| Store Employees Within the Store | 85 |
| Employees Hired for Inventory Taking Purposes | 24 |
| Store Employees From Another Store | 14 |
| Other Employees | 13 |
| Other | 6 |

Number of participants ..... 160

Number of responses to this question ..... 160

Overall, it took an average of 38 people to perform a store's physical inventory. Respondents with stores averaging 100,000 feet or more used an average of 168 people to perform an inventory. For stores under 2,500 feet, it took an average of 11 people.

An average of 52 people were utilized for warehouse physical inventories. It took an average of 89 people to take inventory in a warehouse over 350,000 feet, and an average of 17 people for a warehouse under 75,000 feet.

Fifty-six percent of all respondents utilized an outside service for taking store inventories. Store employees from within the store were utilized by 53% of respondents, while 15% used employees hired for inventory-taking purposes.

RGIS continues to be the most frequently used inventory-taking service; 70 of 87 respondents reported using them for store inventory last year, and 22 of 31 respondents used them for the warehouse. Washington is number-two overall, with 38 repondents using them for store physicals and six using them for the warehouse. Two respondents used Capital for store physicals and one used this company for the warehouse.

# OVERALL FINDINGS

| | All Participants | Participants by 1989 Sales Volume in $Millions: Under $100 | $100-$399 | $400-$999 | $1,000 or More |
|---|---|---|---|---|---|
| Total Number of Survey Participants | 160 | 53 | 42 | 27 | 38 |
| Number of Responses to this Question | 128 | 45 | 33 | 17 | 33 |
| Under $50,000 | 32 | 25 | 4 | 2 | 1 |
| $50,000 to $199,999 | 30 | 18 | 11 | 1 | — |
| $200,000 to $999,999 | 37 | 2 | 16 | 11 | 8 |
| $1,000,000 or more | 29 | — | 2 | 3 | 24 |
| Average Cost of Physical Inventory Taking (in $ thousands) | $1,218 | $67 | $285 | $483 | $4,097 |

The total cost of physical inventories (for 128 respondents) was $156 million, an average of $1,218,000. Fifty-six percent of those costs were internal. For companies with revenues of $1 billion or more, the average cost was $4,097,000. For companies with revenues of $400 million-$999 million, the average cost was $483,000. For companies with revenues of $100 million-$399 million, the average cost was $285,000. And for companies with revenues under $100 million, the average cost was $67,000.

The high-shrink department in our survey was fashion accessories and costume jewelry, at 7.57% of sales. The low-shrink departments were men's apparel and shoes, both at 1.84%.

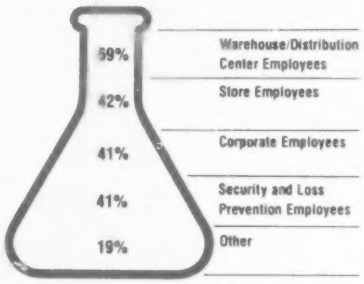
What is the Highest Shrinkage Department?

| | Ladie's Apparel | Men's Apparel | Juniors | Health and Beauty Aids | Fine Jewelry | Shoes | Fashion Accessories and Costume Jewelry | Toys, Hobbies and Games | Records, Cassettes, CDs and Videotapes | Radios, Televisions and Stereos | Sporting Goods |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Shrinkage Percentage | 2.44% | 1.84% | 2.65% | 3.51% | 4.71% | 1.84% | 7.57% | 2.10% | 4.13% | 3.37% | 3.44% |
| Number of respondents | 47 | 47 | 37 | 36 | 23 | 33 | 43 | 32 | 24 | 37 | 25 |

Total number of survey participants 160

# OVERALL FINDINGS

**On Which Employees is Drug Testing Performed?**



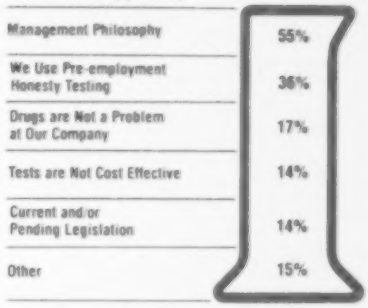

Total number of survey participants . . . . . 160
Number of responses to this question . . . . . 64

**When is Drug Testing Performed?**

| | |
|---|---|
| Pre-employment Screening | 81% |
| Only When Suspicion Exists | 42% |
| Periodic Testing | 19% |
| Other | 13% |

Total number of survey participants . . . . . 160
Number of responses to this question . . . . . 62

**Why Doesn't Your Company Perform Drug Testing?**




Total number of survey participants . . . . . 160
Number of responses to this question . . . . . 99

## Drugs in the Workplace

Sixty-four respondents tested their employees for drugs last year. Warehouse/DC employees were tested at 69% of these companies, store employees were tested at 42%, corporate employees were tested at 41%, and security and loss prevention employees were tested at 41%.

When testing was performed, 81% tested during preemployment screening, 42% tested only when suspicion existed, and 19% tested periodically.

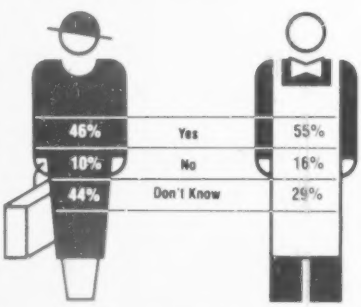
When asked why they don't test for drugs, most (55%) respondents said management was philosophically opposed to it, 36% said they use preemployment honesty testing, 17% said drugs are not a problem at their company, 14% said tests are not effective, and 14% cited current and/or pending legislation.

Forty-six percent said there was evidence that customer thefts were drug related; 55% said there was evidence that employee thefts were drug related. Forty-four percent of retailers did not know about the customers; 29% did not know about their employees.

How did they know? At 62% of the respondents, employees confessed; at 27% of the companies, customers confessed that he or she had been using drugs. Thirteen percent said the behavior of the employee provided the evidence. Where customers were concerned, 25% cited behavior.

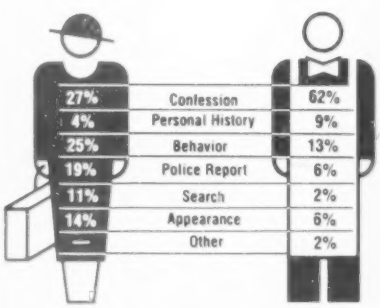
The police were involved or notified in 57% of the employee and 79% of the customer apprehensions. Sixty percent of the retailers prosecuted apprehended employees and 75% prosecuted customers.

**Was There Any Evidence That Thefts Were Drug Related?**



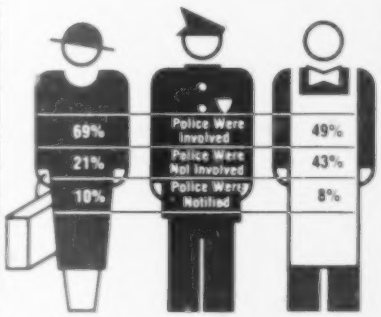

| Customers | Total number of survey participants | Employees |
|---|---|---|
| 160 | | 160 |
| 149 | Number of responses to this question | 155 |

**How Did You Know Thefts Were Drug Related?**




| Customers | Total number of survey participants | Employees |
|---|---|---|
| 160 | | 160 |
| 60 | Number of responses to this question | 80 |

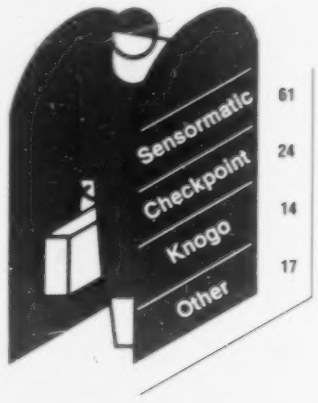
**Were Police Involved in Apprehensions?**




| Customers | Total number of survey participants | Employees |
|---|---|---|
| 160 | | 160 |
| 58 | Number of responses to this question | 79 |

# OVERALL FINDINGS

**What Brand of EAS Equipment are Retailers Using?**
**(in $ millions)**

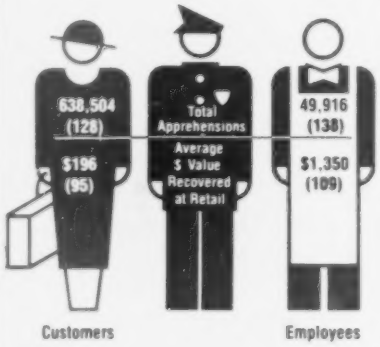



Total number of survey participants . . . . . 160
Number of responses to this question . . . . . 77

## EAS

Sensormatic EAS equipment was the most popular brand with all segments but supermarkets, where Checkpoint was number one, and drug chains, where it was tied with Checkpoint for number one.

**Apprehensions and Dollars Recovered**




Total number of survey participants 160
( ) = Number of responses to this question

## Apprehensions

While customers apprehended outnumbered employees apprehended by almost 13 to 1, the value of merchandise recovered was seven times greater for employees—an average of $1,350 per apprehended employee vs. an average of $196 per apprehended customer.

In 1989, the majority of respondents (55%) sought civil restitution from apprehended customers and employees in the states where it is legal. More than 75,000 cases were attempted and nearly 26,000 were settled. But, the average recovery per company was only $105,000.

# DEPARTMENT STORES

*Twenty-two department stores participated in this year's study. Four had 1989 revenue of more than $1 billion, five had sales in the $400 million to $999 million range, nine had sales in the $100 million to $399 million range, and four had sales below $100 million.*

*The 22 retailers operated an average of 44 stores. Together, they operated a total of 971 stores.*

## Expenses and Capital Expenditures

The department store respondents spent $73,159,000 on loss prevention in 1989. On average they spent $3,658,000 or 0.54% of sales. In 1988, the same retailers spent an average of 0.53% of sales.

Department stores with revenues of $1 billion or more had expenses averaging $10,204,000, or 0.47% of sales, in 1989. Companies in the $400-$999 million range averaged $4,807,000, or 0.77% of sales. Stores in the $100 million to $399 million range averaged $1,096,000, or 0.47% of sales. And companies under $100 million averaged $159,000, or 0.47% of sales.

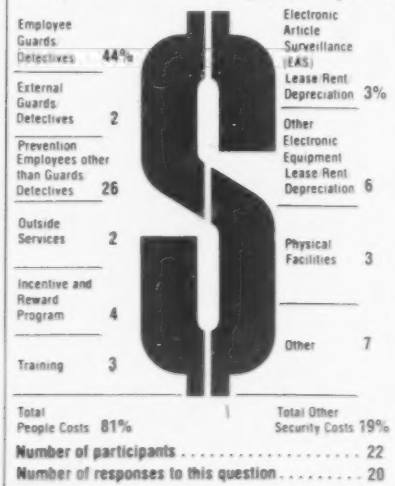
Total capital expenditures in 1989 rose an extraordinary 103% to $6,936,000, or $365,000 per respondent. EAS accounted for 20% of capital expenditures, other electronic equipment accounted for 63%, and alarms accounted for 15%.

**ANALYSIS OF LOSS PREVENTION EXPENSES**

| | All Department Stores | | Participants by 1989 Sales Volume in $Millions | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Under $100 | | $100 to $399 | | $400 to $999 | | $1,000 or more | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| Total Number of Survey Participants | 22 | 22 | 4 | 4 | 9 | 9 | 5 | 5 | 4 | 4 |
| Average Expenses as a Percent of Sales | 0.54% (20) | 0.53% (20) | 0.47% (4) | 0.47% (4) | 0.47% (7) | 0.48% (7) | 0.77% (5) | 0.68% (5) | 0.47% (4) | 0.46% (4) |
| Average Expenses (in $ thousands) | $3,658 (20) | $3,230 (20) | $159 (4) | $160 (4) | $1,096 (7) | $1,035 (7) | $4,807 (5) | $4,014 (5) | $10,204 (4) | $9,163 (4) |
| Total Expenses (in $ thousands) | $73,159 (20) | $64,603 (20) | $634 (4) | $640 (4) | $7,672 (7) | $7,243 (7) | $24,036 (5) | $20,070 (5) | $40,817 (4) | $36,650 (4) |

( ) = Number of responses to this question.

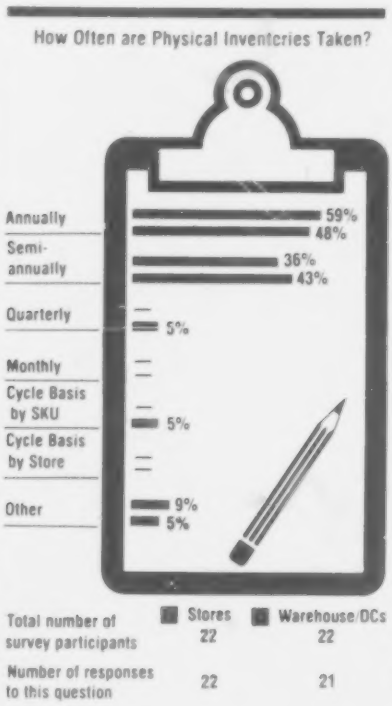
**Allocation of Loss Prevention Expenses in 1989**


People Costs:
Employee Guards Detectives 44%
External Guards Detectives 2
Prevention Employees other than Guards Detectives 26
Outside Services 2
Incentive and Reward Program 4
Training 3
Total People Costs 81%
Other Security Costs:
Electronic Article Surveillance (EAS) Lease/Rent Depreciation 3%
Other Electronic Equipment Lease/Rent Depreciation 6
Physical Facilities 3
Other 7
Total Other Security Costs 19%

Number of participants ..... 22
Number of responses to this question ..... 20

More than 80% of their loss-prevention dollars were allocated to people costs, with internal and external labor accounting for more than 70%. For respondents with revenues below $100 million, people costs accounted for 77% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 82%; for companies in the $400 million-$999 million range, their costs were 80%; and for companies with revenues over $1 billion, people costs accounted for 86% of loss prevention expenses.

# DEPARTMENT STORES




## Physical Inventory Approaches

Fifty-nine percent of respondents took their store's physical inventory once a year and 36% took it twice. Forty-eight percent took their warehouse and distribution center's inventory annually; 43% took it two times a year.

Of the 20 department store respondents, 14 took store physical inventories in one day and four completed it in two days. In the warehouse/DC, seven respondents took inventory in one day, four took it in two days and two took it in three days.

Three respondents with stores over 100,000 feet completed it in one day and two performed it in two days; eight respondents with stores 50,000-99,999 feet completed it in one day; and two respondents with stores 20,000-49,999 feet completed it in one day.

| Department Stores by Retail Store Size in Square Feet | HOW MANY DAYS DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY? Number of Days | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Under 1 | 1 | 1½ | 2 | 2½ | 3 | Over 3 | Total |
| Under 2,500 | — | 1 | — | — | — | — | — | 1 |
| 2,500 to 7,499 | — | — | — | — | — | — | — | — |
| 7,500 to 19,999 | — | — | — | — | — | — | — | — |
| 20,000 to 49,999 | — | 2 | — | 1 | — | — | — | 3 |
| 50,000 to 99,999 | — | 8 | 1 | 1 | — | — | — | 10 |
| 100,000 or More | — | 3 | 1 | 2 | — | — | — | 6 |
| All Department Stores | — | 14 | 2 | 4 | — | — | — | 20 |
| [illegible] | | | | | | | | |
| Under 75,000 | NA | 2 | — | 1 | — | — | — | 3 |
| 75,000 to 150,000 | NA | 2 | — | 1 | — | — | — | 3 |
| 151,000 to 350,000 | NA | 3 | — | 1 | — | 1 | — | 5 |
| Over 350,000 | NA | — | — | 1 | 1 | 1 | 2 | 5 |
| All Department Stores | NA | 7 | — | 4 | 1 | 2 | 2 | 16 |

Total number of survey participants 22

NA = not applicable

# DEPARTMENT STORES

## HOW MANY PEOPLE DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY?

| Department Stores by Square Feet | | | |
|---|---|---|---|
| Under 2,500 | 85 (1) | 85 (1) | 85 (1) |
| 2,500 to 7,499 | — — | — — | — — |
| 7,500 to 19,999 | — — | — — | — — |
| 20,000 to 49,999 | 40 (3) | 35 (1) | 45 (1) |
| 50,000 to 99,999 | 107 (10) | 40 (2) | 200 (2) |
| 100,000 or More | 185 (6) | 110 (1) | 300 (1) |
| All Department Stores | 119 (20) | 35 (1) | 300 (1) |
| **Department Stores by Sales Per Square Foot** | | | |
| Under 75,000 | 33 (3) | 23 (1) | 45 (1) |
| 75,000 to 150,000 | 43 (3) | 25 (1) | 75 (1) |
| 151,000 to 350,000 | 38 (5) | 20 (1) | 50 (2) |
| Over 350,000 | 105 (5) | 40 (1) | 200 (1) |
| All Department Stores | 59 (16) | 20 (1) | 200 (1) |

Total number of survey participants 22
( ) = Number of responses to this question.

### Who Takes Store Physical Inventories?

| | |
|---|---|
| An Inventory Taking Service | 8 |
| Store Employees Within the Store | 18 |
| Employees Hired for Inventory Taking Purposes | 6 |
| Store Employees From Another Store | 3 |
| Other Employees | 2 |
| Other | — |

Number of participants ..... 22

Number of responses to this question ..... 22

An average of 119 people per store were needed to perform physical inventories. Companies with stores over 100,000 feet used an average of 185 people. Companies with stores 50,000-99,999 feet used 107 people. For stores 20,000-49,000 feet, it took 40 people.

In the warehouse/DC, an average of 59 people were needed to take inventory. It took an average of 105 people to take inventory in a warehouse over 350,000 feet, 38 people to perform it in a warehouse 151,000-350,000 feet, 43 people to take it in a 75,0000-150,000 foot warehouse, and 33 people to take it in a facility under 75,000 feet.

Store employees took their store's inventory at 82% of the department stores. An inventory-taking service was hired at 36% of the stores, and 27% hired employees for inventory purposes only. Store employees from another store took inventory at 14%.

Of the stores that used an inventory-taking service, 88% used RGIS and 50% used Washington. One hundred percent used RGIS in the warehouse, while 33% used Washington.

# DEPARTMENT STORES

## WHAT IS THE ESTIMATED ANNUAL COST OF TAKING A PHYSICAL INVENTORY?

| | All Department Stores | Participants by 1989 Sales Volume in $Millions | | | |
|---|---|---|---|---|---|
| | | Under $100 | $100-$399 | $400-$999 | $1,000 or More |
| Total Number of Survey Participants | 22 | 4 | 9 | 5 | 4 |
| Number of Responses to this Question | 16 | 3 | 6 | 4 | 3 |
| Under $50,000 | 3 | 2 | 1 | — | — |
| $50,000 to $199,999 | 1 | — | 1 | — | — |
| $200,000 to $999,999 | 8 | 1 | 4 | 2 | 1 |
| $1,000,000 or more | 4 | — | — | 2 | 2 |
| Average Cost of Physical Inventory Taking (in $ thousands) | $1,273 | $126 | $236 | $819 | $5,100 |

The average cost of taking inventory was $1,273,000 per department store. For companies with revenue of $1 billion or more, the average cost was $5,100,000. For department stores with revenues of $400 million-$999 million, the average cost was $819,000. For companies with revenue of $100 million-$399 million, the average cost was $236,000. And for companies with revenues under $100 million the average cost was $126,000.

The high-shrink department was records, cassettes, CDs and videos, at 5.53% of sales.

The low-shrink department was shoes, at 1.50% of sales.

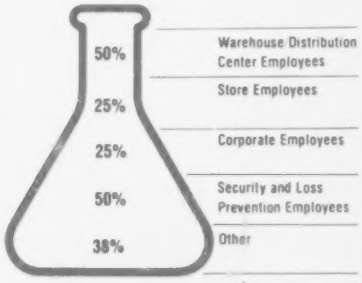
## What is the Highest Shrinkage Department?

| | Ladie's Apparel | Men's Apparel | Juniors | Health and Beauty Aids | Fine Jewelry | Shoes | Fashion Accessories and Costume Jewelry | Toys, Hobbies and Games | Records, Cassettes, CDs and Videotapes | Radios, Televisions and Stereos | Sporting Goods |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Shrinkage Percentage | 2.78% | 2.19% | 2.84% | 1.73% | 1.68% | 1.50% | 5.41% | 2.42% | 5.53% | 3.86% | 2.95% |
| Number of respondents | 19 | 19 | 16 | 9 | 5 | 10 | 19 | 9 | 4 | 12 | 4 |

Total number of survey participants 22

# DEPARTMENT STORES

**On Which Employees is Drug Testing Performed?**



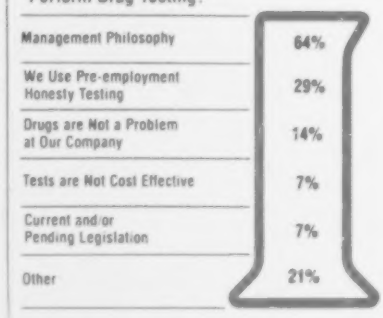

Total number of survey participants . . . . . 22
Number of responses to this question . . . . . 8

**When is Drug Testing Performed?**

| | |
|---|---|
| Pre-employment Screening | 100% |
| Only When Suspicion Exists | 33% |
| Periodic Testing | 33% |
| Other | 17% |

Total number of survey participants . . . . . 22
Number of responses to this question . . . . . 6

**Why Doesn't Your Company Perform Drug Testing?**




Total number of survey participants . . . . . 22
Number of responses to this question . . . . . 14

## Drugs in the Workplace

Only eight of our department store respondents said they did drug testing last year. Warehouse/DC and security and loss prevention employees were tested at half the companies, store employees were tested at two, and corporate employees were tested at two.

Testing was performed during preemployment screening at all six of the companies responding to this question. Two of the respondents tested periodically, and two tested only when suspicion existed.

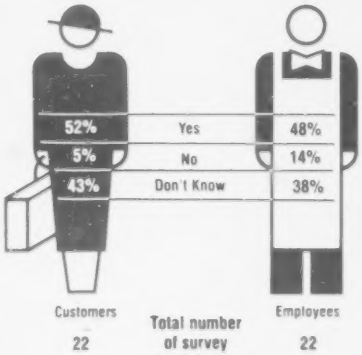
When asked why they didn't test, 64% of 14 respondents cited "management philosophy," 29% said they used preemployment honesty testing, and 14% said drugs were not a problem at their company.

Fifty-two percent said there was evidence that customers caught stealing had been using drugs. Forty-three percent didn't know. Where employee theft was concerned, 48% believed drugs were involved and 38% didn't know.

Where employees were concerned, their evidence was based on confession at 59% of respondents and behavior at 21%. Where customers were concerned, behavior provided the evidence at 30% of respondents, confessions were the evidence at 28%, a search yielded evidence at 18%, and appearance convinced them at 16%.

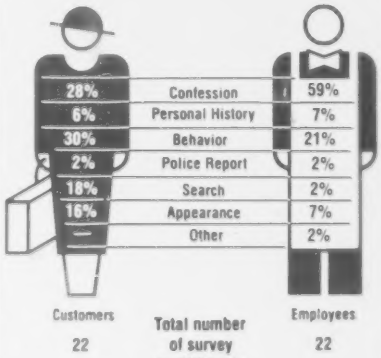
The police were involved in 80% of the customer and 53% of the employee apprehensions. They were notified in 10% of customer and 18% of employee apprehensions.

**Was There Any Evidence That Thefts Were Drug Related?**



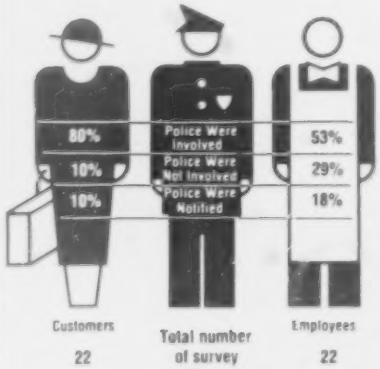

| Customers | | Employees |
|---|---|---|
| 22 | Total number of survey participants | 22 |
| 21 | Number of responses to this question | 21 |

**How Did You Know Thefts Were Drug Related?**




| Customers | | Employees |
|---|---|---|
| 22 | Total number of survey participants | 22 |
| 10 | Number of responses to this question | 9 |

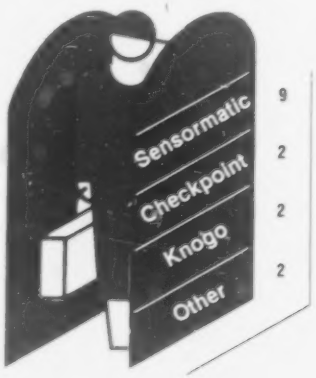
**Were Police Involved in Apprehensions?**




| Customers | | Employees |
|---|---|---|
| 22 | Total number of survey participants | 22 |
| 10 | Number of responses to this question | 9 |

# DEPARTMENT STORES

**What Brand of EAS Equipment are Retailers Using?**
**(In $ millions)**

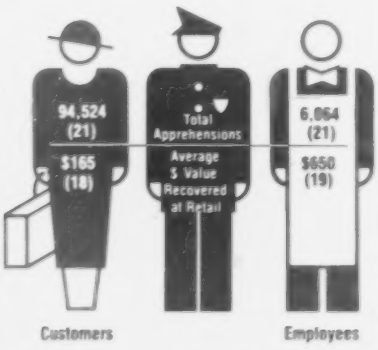



Total number of survey participants . . . . . 22
Number of responses to this question . . . . . 12

## EAS

Seventy-five percent of respondents used Sensormatic EAS equipment, 17% used Knogo and 17% used Checkpoint.

**Apprehensions and Dollars Recovered**




Total number of survey participants 22
( ) = Number of responses to this question

## Apprehensions

Department stores apprehended 100,588 shoplifters in 1989; 94% of them were customers and 6% were employees. In 1988, retailers apprehended 85,518 shoplifters, 91% of which were customers.

In 1989, the value of the merchandise recovered from apprehended customers was $165 per customer. The value of recovered merchandise stolen by employees was an eye-opening $650.

Fifty-seven percent of department stores sought civil restitution from apprehended customers and employees in 1989. More than 12,000 cases were attempted and more than half were settled, and $1,176,000 was recovered. An average of $131,000 was recovered per respondent. In 1988, almost 8,000 cases were attempted and more than half settled at an average recovery of $63,000.

CASE STUDY: THE BROADWAY

# Broadway Gets Theatrical to 'Stop Our Shortages'

The Broadway: A division of Carter Hawley Hale
Region: Southern California
Number of stores: 43
Annual revenue: $1.3 billion

Stay Tuned In With...
THE BROADWAY KSOS
Retail Radio Program!
KSOS
Krazy Kirk says, "Help stop our shortages and share our savings."

You don't normally associate loss prevention with radio stations, rock videos and comic books. But that's exactly what The Broadway has been doing since the fall of 1989, when it started a popular and successful awareness program that has come to be known as KSOS.

According to Rose Culp, The Broadway's loss-prevention training manager, KSOS grew out of Stop Our Shortage and Satisfy Our Shoppers (SOS), an awareness program that used to run for just two weeks a year.

Culp, Jim Lee, vp-loss prevention, and J.W. Fogg, divisional vp-loss prevention, were brainstorming one day, trying to plan the next SOS program, when they decided to do something new—something that would communicate directly with the store's sales associates in a way that would engage them and, of course, motivate them to help control shrinkage.

"Somebody said 'radio,'" says Culp, and an inspired idea was born. "We came up with a fictitious radio station called KSOS, because here in California radio station call letters begin with K." It would be fun, they decided—an upbeat concept that the store's many young sales associates could relate to. And, they hoped, it would be ongoing—a program that maintains a level of awareness that most on-again, off-again programs do not.

"Station management" responsibilities fell to Culp, and she started, as station managers often do, by recruiting a personality—in this case a Broadway security manager named Kirk Palchefsky, who called himself "Krazy Kirk."

**A boffo debut**: Kirk debuted a few weeks later as host of a call-in contest on KSOS. The shrinkage goal at the time was two percent of sales, so they hooked up telephones and had sales associates call 2020 and answer shortage-related questions put to them by Kirk. The one-day contest generated 2,000 calls, and as Culp says, "we knew we'd come up with a pretty good idea."

Their next move was to recruit some musical employees and form a rock band. Using the resources of The Broadway's internal communications department, they produced a music video featuring Krazy Kirk called "Savin' at The Broadway." A followup, "Takin' Care of Shortage," was quickly recorded and "simulcast" on KSOS.

Next was a print program featuring a "mystery item." Every six weeks they distributed a pamphlet (with Kirk's picture on it) with the headline "Krazy Kirk Wants You To Know." The booklet contained information on a particular aspect of loss-prevention, a quiz related to the theme, and a concealed "mystery item."

The first pamphlet was based on price changes—the importance of doing them accurately and on time. Employees did the price-change quiz, tried to guess what the mystery item was, and dropped their completed quiz in their store's KSOS box. Some 3,500 employees participated and about 400 people won prizes like sunglasses, duffle bags and sport bottles.

The second pamphlet was based on shoplifting and customer service. This time 6,000 employees participated (about half the total), and many of them won the mystery item prize.

## CASE STUDY: THE BROADWAY

With momentum building, they did a third pamphlet last spring. This one tackled employee theft and generated the biggest response to date.

**Team Shortage:** At about this time, the KSOS team rolled out yet another program element—a comic book series. Turning again to the internal communications department, they produced Team Shortage comics.

Complete with a villain named Dr. Shortage and three hero-DJs from KSOS, including Krazy Kirk, the comics cover loss-prevention issues using familiar superhero scenarios. In the first one, Dr. Shortage uses his brain-scrambling machine to foul up the sales associates doing price changes. Our heroes transform themselves into Team Shortage to defeat the doctor. The second book, about employee theft, has the DJs thwarting a "sticky-fingered" Dr. Shortage.

The result of all this, says Rose Culp, is that employees are getting the message. "Our people have been drawn to it," she says. "Kirk now makes appearances in our stores, and you'll see people dancing on tables at 8:00 a.m. They're involved, and that translates into greater awareness."

Does it translate into lower shrinkage? "It's difficult to say what the direct effect of KSOS has been," she says. But the numbers have improved significantly, from 2.4 percent of sales to about 1.9 percent.

**Civil restitution:** And there's an added plus, too. The program isn't costing The Broadway a dime because it's being funded entirely by civil restitution. According to Dan Gallegos, manager of the Restitution Department, the store is permitted by California law to bring a civil suit against a person who has been apprehended for shoplifting in one of their stores. They can demand from $50 to $500 from the perpetrator, and while they don't pursue every case—they shy away from children, senior citizens and indigents—Dan says they've never lost a judgment they did pursue.

The bottom line is The Broadway recovered more than $400,000 last year through civil restitution. This easily covers the cost of KSOS, with the balance going into a general fund.

All this bodes well for the future of KSOS, and the team is already working on upcoming programs. This fall they produced another "mystery item" pamphlet. They also formed a committee of loss prevention managers to give Rose feedback on what's working—what's being received well—and what's not.

They're also working on a new Team Shortage comic book, with an expanded cast of characters.

Says director Jim Lee: "The store managers believe in KSOS. The loss-prevention managers believe in it. It's been even more successful than we hoped it would be."

# DRUG CHAINS

*Of the 10 drug chains that responded to the Ounce of Prevention survey, eight had sales of $1 billion or more, one had sales in the $100 million to $399 million range, and one had sales of less than $100 million.*

*These retailers operated an average of 674 stores and together had 6,742.*

## Expenses and Capital Expenditures

In 1989, drug chains incurred expenses of $57,513,000 for security and loss prevention. The average expenses per respondent was $5,751,000 or 0.22% of sales. In 1988, these retailers spent 0.19% of sales on loss prevention.

The drug chain with revenues under $100 million incurred expenses of $78,000, or 0.13% of sales. The company in the $100 million-$399 million range spent $400,000, or 0.33% of sales. And companies with revenues of $1 billion or more had expenses averaging $7,129,000, or 0.22% of sales.

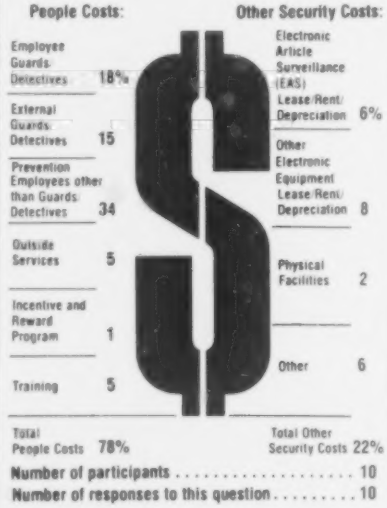
Total capital expenditures in 1989 were $4,167,000, or $463,000 per respondent. EAS accounted for the lion's share of those expenditures at 57%. Alarm expenditures accounted for 18%, and other electrical equipment accounted for 15%.

**ANALYSIS OF LOSS PREVENTION EXPENSES**

| | All Drug Chains | | Participants by 1989 Sales Volume in $Millions | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Under $100 | | $100 to $399 | | $400 to $999 | | $1,000 or more | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| Total Number of Survey Participants | 10 | 10 | 1 | 1 | 1 | 1 | — | — | 8 | 8 |
| Average Expenses as a Percent of Sales | 0.22% (10) | 0.19% (10) | 0.13% (1) | 0.10% (1) | 0.33% (1) | 0.25% (1) | — — | — — | 0.22% (8) | 0.19% (8) |
| Average Expenses (in $ thousands) | $5,751 (10) | $3,600 (10) | $78 (1) | $61 (1) | $400 (1) | $290 (1) | — — | — — | $7,129 (8) | $4,456 (8) |
| Total Expenses (in $ thousands) | $57,513 (10) | $36,000 (10) | $78 (1) | $61 (1) | $400 (1) | $290 (1) | — — | — — | $57,035 (8) | $35,649 (8) |

( ) = Number of responses to this question.

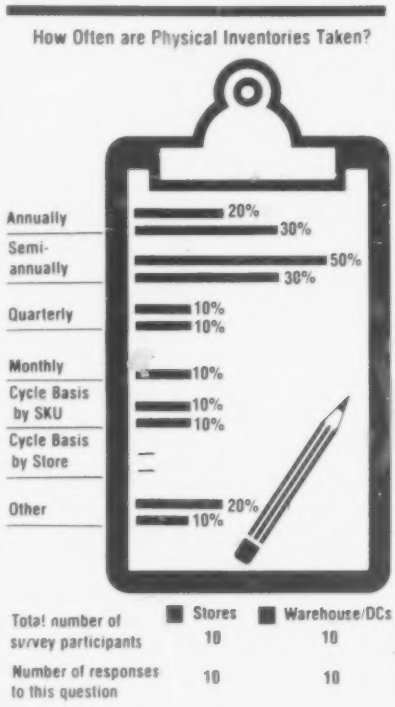
**Allocation of Loss Prevention Expenses in 1989**




Number of participants . . . . . 10
Number of responses to this question . . . . . 10

People costs accounted for 78% of loss prevention expenses, with internal and external labor accounting for almost 70%. For the respondent with revenues below $100 million, people costs accounted for 99% of loss prevention expenses. For the company in the $100 million-$399 million range, people costs were 100%; and for companies with revenues over $1 billion, people costs accounted for 75% of loss prevention expenses.

# DRUG CHAINS




## Physical Inventory Approaches

Of the 10 drug chain respondents, five took store inventories twice a year and two took it annually. Three chains took their warehouse/DC's inventory twice a year and three took it annually.

At nine out of 10 drug chains, it took one day to complete a store's inventory. In the warehouse, five respondents took it in one day, one took it in two days, two took it in two and a half days and two took it in three days.

| Drug Chains by Retail Store Size in Square Feet | Number of Days | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Under 1 | 1 | 1½ | 2 | 2½ | 3 | Over 3 | Total |
| Under 2,500 | NA | — | — | NA | NA | NA | NA | — |
| 2,500 to 7,499 | NA | 1 | — | NA | NA | NA | NA | 1 |
| 7,500 to 19,999 | NA | 4 | 1 | NA | NA | NA | NA | 5 |
| 20,000 to 49,999 | NA | 4 | — | NA | NA | NA | NA | 4 |
| 50,000 to 99,999 | NA | — | — | NA | NA | NA | NA | — |
| 100,000 or More | NA | — | — | NA | NA | NA | NA | — |
| All Drug Chains | NA | 9 | 1 | NA | NA | NA | NA | 10 |
| [illegible] | | | | | | | | |
| Under 75,000 | | 1 | NA | — | — | — | NA | 1 |
| 75,000 to 150,000 | | 1 | NA | — | — | — | NA | 1 |
| 151,000 to 350,000 | | 2 | NA | — | 2 | 1 | NA | 5 |
| Over 350,000 | | 1 | NA | 1 | — | 1 | NA | 3 |
| All Drug Chains | | 5 | NA | 1 | 2 | 2 | NA | 10 |

Total number of survey participants 10

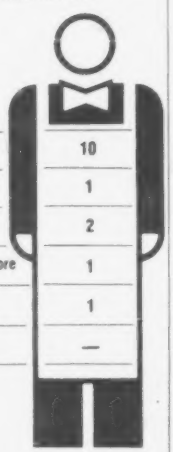
NA = not applicable.

# DRUG CHAINS

| Drug Chains by Retail Store Size In Square Feet | Average | Minimum | Maximum |
|---|---|---|---|
| Under 2,500 | —<br>— | —<br>— | —<br>— |
| 2,500 to 7,499 | 10<br>(1) | 10<br>(1) | 10<br>(1) |
| 7,500 to 19,999 | 14<br>(5) | 8<br>(2) | 25<br>(1) |
| 20,000 to 49,999 | 33<br>(4) | 5<br>(1) | 65<br>(1) |
| 50,000 to 99,999 | —<br>— | —<br>— | —<br>— |
| 100,000 or More | —<br>— | —<br>— | —<br>— |
| All Drug Chains | 21<br>(10) | 5<br>(1) | 65<br>(1) |
| Under 75,000 | 15<br>(1) | 15<br>(1) | 15<br>(1) |
| 75,000 to 150,000 | 20<br>(1) | 20<br>(1) | 20<br>(1) |
| 151,000 to 350,000 | 39<br>(5) | 19<br>(1) | 80<br>(1) |
| Over 350,000 | 58<br>(3) | 30<br>(1) | 75<br>(1) |
| All Drug Chains | 40<br>(10) | 15<br>(1) | 80<br>(1) |

Total number of survey participants 10
( ) = Number of responses to this question.

## Who Takes Store Physical Inventories?



| | |
|---|---|
| An Inventory Taking Service | 10 |
| Store Employees Within the Store | 1 |
| Employees Hired for Inventory Taking Purposes | 2 |
| Store Employees From Another Store | 1 |
| Other Employees | 1 |
| Other | — |

Number of participants ..... 10

Number of responses to this question ..... 10

An average of 21 people per store were needed to perform physical inventory in 1989. Respondents with stores 20,000-49,999 feet used an average of 33 people. For stores 7,500-19,999 feet it took 14 people. For drug stores 2,500 feet to 7,499 feet, it took 10 people.

In the warehouse/DC, an average of 40 people were needed to perform inventory. For warehouses larger than 350,000 feet, it took 58 people. For warehouses 151,000 feet to 350,000 feet, it required 39 people. For 75,000-150,000-foot warehouses, it required 20 people. And for warehouses under 75,000 feet, it took an average of 15 people.

All 10 respondents hired an inventory-taking service to take inventory in their stores. Seven of the companies used Washington and six used RGIS. In the warehouse/DC, only three used RGIS, two used Washington, and three used "other."

# Do you know someone who has what it takes to be Entrepreneur Of The Year®?

| Yes | No | |
|---|---|---|
| ☐ | ☐ | Is first to arrive...last to leave. |
| ☐ | ☐ | Hardly remembers what the sun feels like. |
| ☐ | ☐ | Routinely wakes up in the middle of the night to jot down ideas. |
| ☐ | ☐ | Has an extended family called, "My staff." |
| ☐ | ☐ | Is driven by a vision. |

If you answered these "yes," for yourself or someone you know, send us your nomination for the 1991 Entrepreneur Of The Year—the country's most prestigious recognition for business owners.

Independent panels of respected business and civic leaders will choose award recipients in several categories in 40 regions. From that group, the national Entrepreneur Of The Year will be selected and featured on the cover of Inc. Magazine.

For information and a nomination form, call (24 hrs) 1-800-421-0004 or write Entrepreneur Of The Year, 2001 Ross Ave, Suite 2800, Dallas, Texas 75201. Or fax, 214-979-2333. Deadline for nominations is April 30, 1991.

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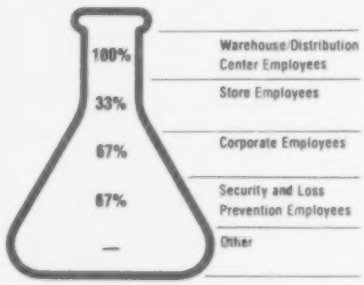
ERNST & YOUNG  Inc.  Merrill Lynch

# DRUG CHAINS

**On Which Employees is Drug Testing Performed?**




Total number of survey participants . . . . . 10
Number of responses to this question . . . . . 3

**When is Drug Testing Performed?**

| | |
|---|---|
| Pre-employment Screening | 100% |
| Only When Suspicion Exists | 67% |
| Periodic Testing | 33% |
| Other | — |

Total number of survey participants . . . . . 10
Number of responses to this question . . . . . 3

**Why Doesn't Your Company Perform Drug Testing?**

| | |
|---|---|
| Management Philosophy | 57% |
| We Use Pre-employment Honesty Testing | 43% |
| Drugs are Not a Problem at Our Company | — |
| Tests are Not Cost Effective | 14% |
| Current and/or Pending Legislation | 29% |
| Other | 14% |

Total number of survey participants . . . . . 10
Number of responses to this question . . . . . 7

## Drugs in the Workplace

Of the three drug chain respondents who tested their employees for drugs, all tested their warehouse/DC employees for drugs, two tested corporate and loss prevention employees, and one tested store employees.

All three respondents tested during preemployment screening, one tested periodically, and two tested only when suspicion existed.

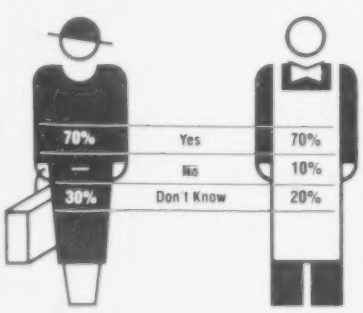
When asked why they don't test for drugs, 57% of respondents cited management philosophy, 43% said they used preemployment honesty testing, 29% cited current and/or pending legislation, and 14% said tests are not cost effective.

Seven out of our 10 drug chains felt the customers they apprehended last year had been using drugs. Three didn't know. Seven out of 10 also felt that drug use was evident among apprehended employees, while two didn't know.

How did they know? At 87% of the companies, the apprehended employees confessed. As for customers under the influence, 45% of the companies based their conclusion on behavior. Thirty-one percent said their apprehended customers confessed to drug use.

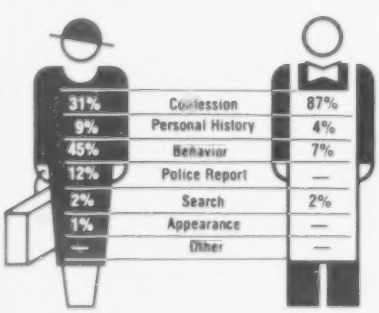
The police were involved in 71% of customer and 27% of employee apprehensions.

**Was There Any Evidence That Thefts Were Drug Related?**



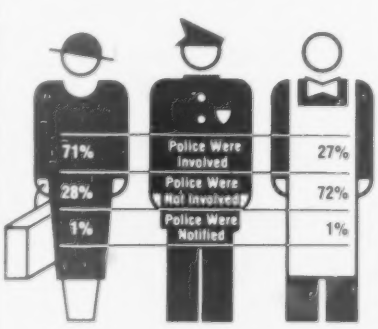

| Customers | | Employees |
|---|---|---|
| 10 | Total number of survey participants | 10 |
| 10 | Number of responses to this question | 10 |

**How Did You Know Thefts Were Drug Related?**




| Customers | | Employees |
|---|---|---|
| 10 | Total number of survey participants | 10 |
| 7 | Number of responses to this question | 7 |

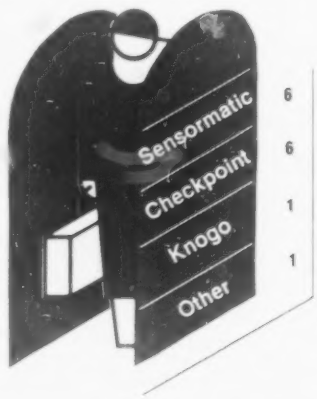
**Were Police Involved in Apprehensions?**




| Customers | | Employees |
|---|---|---|
| 10 | Total number of survey participants | 10 |
| 7 | Number of responses to this question | 7 |

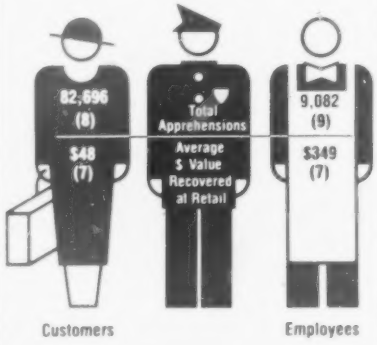
# DRUG CHAINS

**What Brand of EAS Equipment are Retailers Using?**
**(in $ millions)**




Total number of survey participants . . . . . 10
Number of responses to this question . . . . . 8

**Apprehensions and Dollars Recovered**




**Total number of survey participants 10**
**( ) = Number of responses to this question**

## EAS

Six of our drug chain respondents used Sensormatic EAS equipment, six used Checkpoint, one used Knogo and one responded "other."

## Apprehensions

More than 91,000 people were apprehended by nine of the drug chains last year, and 82,696 were customers. In 1988, eight of the chains apprehended about 45,000 people and 39,294 were customers.

The value of the merchandise recovered from customer apprehensions last year was $2,466,000 or $48 per apprehension. The value of merchandise recovered from employee apprehensions was $3,061,000 or $349 per apprehension.

Seven of the drug chains sought civil restitution from apprehended customers and employees in 1989. More than 20,000 cases were attempted and more than 12,000 were settled. The amount recovered from these actions was $1,714,000, an average of $245,000 per company.

# GENERAL MERCHANDISE/MASS MERCHANTS

*Of the 27 mass merchants that responded to the survey, 10 had sales in 1989 of $1 billion or more, four had sales in the $400 million-$999 million range, eight had sales of $100 million-$399 million, and five had sales of less than $100 million.*

*These merchants operated an average of 411 stores; together they operated 11,087.*

## Expenses and Capital Expenditures

Mass merchants spent $116,475,000 on loss prevention in 1989, an average of $5,064,000 per respondent. As a percentage of sales, they spent 0.33%. On a same-respondent basis, expenses increased from 0.31% in 1988 to 0.32% in 1989.

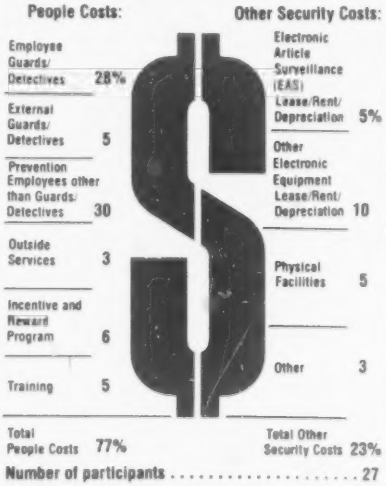
Mass merchants with sales of $1 billion or more averaged $11,795,000, or 0.35% of sales. Companies in the $400-$999 million range averaged $1,114,000, or 0.13% of sales. Merchants in the $100 million-$399 million range averaged $1,113,000, or 0.48% of sales. Companies under $100 million averaged $61,000, or 0.20% of sales.

Total capital expenditure last year was $18,103,000 or $696,000 per merchant. EAS accounted for 42% of those expenditures, down from 48% in 1988. Alarms accounted for 24% and other electronic equipment accounted for 34%.

| | All General Merchandise/ Mass Merchants | | Participants by 1989 Sales Volume in $Millions | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Under $100 | | $100 to $399 | | $400 to $999 | | $1,000 or more | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| Total Number of Survey Participants | 27 | 27 | 5 | 5 | 8 | 8 | 4 | 4 | 10 | 10 |
| Average Expenses as a Percent of Sales | 0.33% (24) | 0.31% (23) | 0.20% (5) | 0.15% (5) | 0.48% (7) | 0.49% (6) | 0.13% (3) | 0.12% (3) | 0.35% (9) | 0.33% (9) |
| Average Expenses (in $ thousands) | $5,064 (23) | $4,373 (23) | $61 (5) | $49 (5) | $1,113 (6) | $1,119 (6) | $1,114 (3) | $989 (3) | $11,795 (9) | $10,072 (9) |
| Total Expenses (in $ thousands) | $116,475 (23) | $100,568 (23) | $304 (5) | $243 (5) | $6,676 (6) | $6,715 (6) | $3,343 (3) | $2,966 (3) | $106,152 (9) | $90,644 (9) |

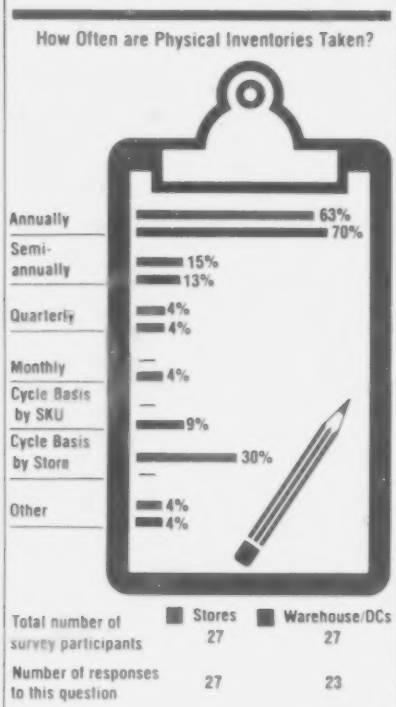
( ) = Number of responses to this question.

**Allocation of Loss Prevention Expenses in 1989**


People Costs:
Employee Guards/ Detectives 28%
External Guards/ Detectives 5
Prevention Employees other than Guards/ Detectives 30
Outside Services 3
Incentive and Reward Program 6
Training 5
Total People Costs 77%
Other Security Costs:
Electronic Article Surveillance (EAS) Lease/Rent/ Depreciation 5%
Other Electronic Equipment Lease/Rent/ Depreciation 10
Physical Facilities 5
Other 3
Total Other Security Costs 23%
Number of participants . . . . . 27
Number of responses to this question . . . . . 25

People costs accounted for 77% of those expenses, with more than 60% allocated for internal and external labor. For respondents with revenues below $100 million, people costs accounted for 66% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 87%; for companies in the $400 million-$999 million range, their costs were 73%; and for companies with revenues over $1 billion, people costs accounted for 75% of loss prevention expenses.

# GENERAL MERCHANDISE/MASS MERCHANTS




## Physical Inventory Approaches

Sixty-three percent of respondents took store inventory annually, 30% used a cycle basis by store, and 15% took inventory twice a year. Seventy percent took inventory annually in the warehouse/DC, 13% took it twice a year, and 9% took it on a cycle basis by SKU.

At 15 of the companies, it took one day to complete the store physical. At six, it took two days. And at two, it took one-and-a-half days. At five of the retailers, the warehouse/DCs physical was completed in one day. At four, it took one-and-a-half days. Another four took two days per facility, and three took three days.

| General Merchandise/Mass Merchants by Retail Store Size in Square Feet | HOW MANY DAYS DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY? Number of Days | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Under 1 | 1 | 1½ | 2 | 2½ | 3 | Over 3 | Total |
| Under 2,500 | — | — | — | — | — | — | — | -- |
| 2,500 to 7,499 | — | 1 | — | 1 | — | — | — | 2 |
| 7,500 to 19,999 | — | 5 | — | 1 | — | — | — | 6 |
| 20,000 to 49,999 | — | 3 | 2 | 1 | — | 1 | — | 7 |
| 50,000 to 99,999 | — | 6 | — | 2 | — | — | 1 | 9 |
| 100,000 or More | — | — | — | 1 | — | — | — | 1 |
| All General Merchandise/Mass Merchants | — | 15 | 2 | 6 | — | 1 | 1 | 25 |
| General Merchandise/Mass Merchants by Warehouse/DC Size in Square Feet | | | | | | | | |
| Under 75,000 | NA | 2 | 1 | — | — | — | — | 3 |
| 75,000 to 150,000 | NA | — | 1 | — | — | 1 | — | 2 |
| 151,000 to 350,000 | NA | 2 | 1 | 2 | — | — | — | 5 |
| Over 350,000 | NA | 1 | 1 | 2 | 1 | 2 | 1 | 8 |
| All General Merchandise/Mass Merchants | NA | 5 | 4 | 4 | 1 | 3 | 1 | 18 |

Total number of survey participants 27

NA = not applicable.

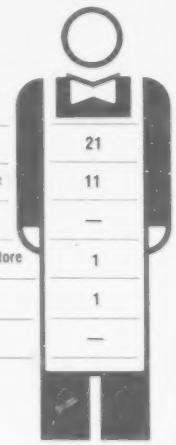
# GENERAL MERCHANDISE/MASS MERCHANTS

## HOW MANY PEOPLE DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY?

| General Merchandise/Mass Merchants by Retail Store Size In Square Feet | Average | Minimum | Maximum |
|---|---|---|---|
| Under 2,500 | — | — | — |
| | — | — | — |
| 2,500 to 7,499 | 8 | 4 | 12 |
| | (2) | (1) | (1) |
| 7,500 to 19,999 | 13 | 8 | 20 |
| | (5) | (1) | (1) |
| 20,000 to 49,999 | 39 | 12 | 120 |
| | (7) | (1) | (1) |
| 50,000 to 99,999 | 68 | 35 | 160 |
| | (9) | (1) | (1) |
| 100,000 or More | 85 | 85 | 85 |
| | (1) | (1) | (1) |
| All General Merchandise/Mass Merchants | 44 | 4 | 160 |
| | (24) | (1) | (1) |
| [illegible] | [illegible] | [illegible] | [illegible] |
| Under 75,000 | 16 | 9 | 30 |
| | (3) | (1) | (1) |
| 75,000 to 150,000 | 50 | 40 | 60 |
| | (2) | (1) | (1) |
| 151,000 to 350,000 | 56 | 25 | 110 |
| | (5) | (1) | (1) |
| Over 350,000 | 83 | 10 | 175 |
| | (8) | (1) | (1) |
| All General Merchandise/Mass Merchants | 61 | 9 | 175 |
| | (18) | (1) | (1) |

Total number of survey participants 27
( ) = Number of responses to this question

### Who Takes Store Physical Inventories?



| | |
|---|---|
| An Inventory Taking Service | 21 |
| Store Employees Within the Store | 11 |
| Employees Hired for Inventory Taking Purposes | — |
| Store Employees From Another Store | 1 |
| Other Employees | 1 |
| Other | — |

Number of participants ..... 27

Number of responses to this question ..... 27

An average of 44 people were needed to take a store's inventory last year. For stores over 100,000 feet, 85 people were used. For stores 50,000-99,999 feet, it took 68 people. For stores 20,000 feet-49,999 feet, 39 people were required. For stores 7,500-19,999 feet, 13 people were used. And for stores 2,500-7,499 feet, eight people were required.

At the warehouse/DC, an average of 61 people were needed to take inventory. For warehouses larger than 350,000 feet, 83 people were required. For warehouses 151,000-350,000 feet, 56 people were needed. For warehouses 75,000-150,000 feet, 50 people were used. For warehouses under 75,000 feet, an average of 16 people were needed.

Seventy-eight percent hired an inventory-taking service for their store's inventory, and 41% used store employees. Of the mass merchants that used an outside inventory-taking service for store inventories, 90% used RGIS, 55% used Washington, one company used Capital and three said they used other services. Only two merchants used RGIS for the warehouse/DC and one used Washington. Two used other services.

# GENERAL MERCHANDISE/MASS MERCHANTS

**WHAT IS THE ESTIMATED ANNUAL COST OF TAKING A PHYSICAL INVENTORY?**

| | All General Merchandise/ Mass Merchants | Participants by 1989 Sales Volume in $Millions | | | |
|---|---|---|---|---|---|
| | | Under $100 | $100-$399 | $400-$999 | $1,000 or More |
| Total Number of Survey Participants | 27 | 5 | 8 | 4 | 10 |
| Number of Responses to this Question | 22 | 3 | 7 | 3 | 9 |
| Under $50,000 | 2 | 2 | — | — | — |
| $50,000 to $199,999 | 4 | 1 | 3 | — | — |
| $200,000 to $999,999 | 7 | — | 4 | 2 | 1 |
| $1,000,000 or more | 9 | — | — | 1 | 8 |
| Average Cost of Physical Inventory Taking (in $ thousands) | $2,362 | $48 | $307 | $800 | $5,253 |

The total cost of taking inventory was $51,969,000, or $2,362,000 per retailer. For merchants with revenues of $1 billion or more, it cost an average of $5,253,000. For companies with revenues of $400 million to $999 million, the average was $800,000. For companies with revenues of $100 million to $399 million, the average was $307,000. And for companies with revenues under $100 million, the average cost was $48,000.

The high-shrink department was fashion accessories and costume jewelry, at 11.22% of sales. The low-shrink department was men's apparel, at 1.69% of sales.

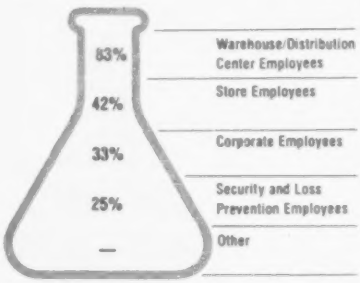
**What is the Highest Shrinkage Department?**

| | Ladie's Apparel | Men's Apparel | Juniors | Health and Beauty Aids | Fine Jewelry | Shoes | Fashion Accessories and Costume Jewelry | Toys, Hobbies and Games | Records, Cassettes, CDs and Videotapes | Radios, Televisions and Stereos | Sporting Goods |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Shrinkage Percentage | 2.72% | 1.69% | 2.34% | 2.88% | 7.09% | 2.27% | 11.22% | 1.99% | 3.83% | 3.56% | 3.69% |
| Number of respondents | 16 | 16 | 13 | 16 | 11 | 14 | 14 | 16 | 16 | 15 | 15 |

Total number of survey participants 27

# GENERAL MERCHANDISE/MASS MERCHANTS

### On Which Employees is Drug Testing Performed?



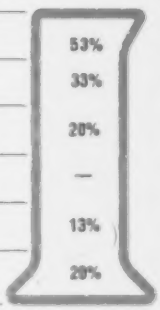

Total number of survey participants . . . . . 27
Number of responses to this question . . . . . 12

### When is Drug Testing Performed?

| | |
|---|---|
| Pre-employment Screening | 100% |
| Only When Suspicion Exists | 33% |
| Periodic Testing | 8% |
| Other | 17% |

Total number of survey participants . . . . . 27
Number of responses to this question . . . . . 12

### Why Doesn't Your Company Perform Drug Testing?




Total number of survey participants . . . . . 27
Number of responses to this question . . . . . 15

## Drugs in the Workplace

Twelve mass merchants indicated they performed drug testing this year. Warehouse/DC employees were tested at 83%, store employees were tested at 42%, corporate employees were tested at 33%, and loss prevention employees were tested at 25%.

All tested for drugs during preemployment screening. Four tested only when suspicion existed, and one tested periodically.

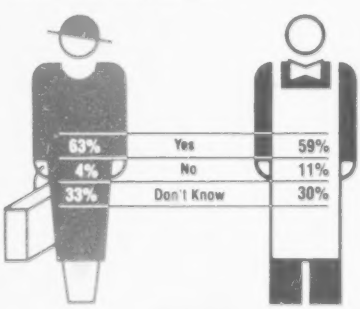
When asked why they didn't test for drugs, 53% cited management philosophy, 33% said they use preemployment honesty testing, 20% said drugs were not a problem at their company, and 13% cited current and/or pending legislation.

Sixty-three percent of the mass merchants said there was evidence that apprehended customers had been using drugs, and 59% said the same about apprehended employees. Thirty-three percent didn't know about the customers, and 30% didn't know if their employee thefts had been drug related.

How did they know? At 59% employees confessed; at 19%, their behavior gave them away; and at 10% their appearance provided the evidence. As for customers, 30% of respondents went by behavior, 29% elicited confessions, 19% got a police report, and 11% cited appearance.

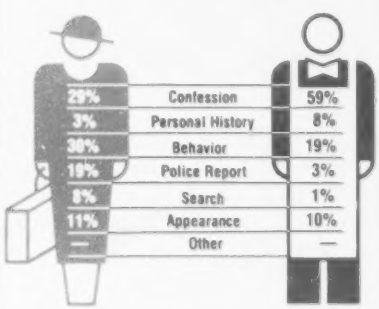
The police were involved in 71% of customer and 53% of employee apprehensions. They were notified in 13% of customer and 8% of employee apprehensions.

### Was There Any Evidence That Thefts Were Drug Related?



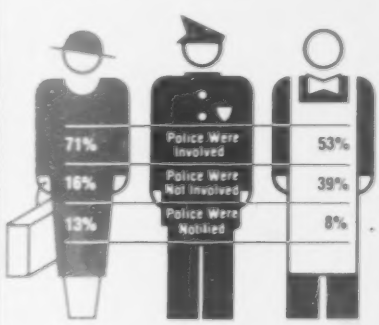

| Customers | | Employees |
|---|---|---|
| 27 | Total number of survey participants | 27 |
| 27 | Number of responses to this question | 27 |

### How Did You Know Thefts Were Drug Related?




| Customers | | Employees |
|---|---|---|
| 27 | Total number of survey participants | 27 |
| 15 | Number of responses to this question | 15 |

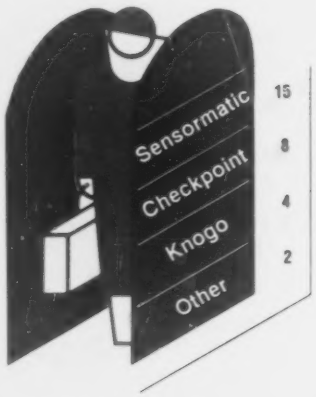
### Were Police Involved in Apprehensions?




| Customers | | Employees |
|---|---|---|
| 27 | Total number of survey participants | 27 |
| 13 | Number of responses to this question | 14 |

# GENERAL MERCHANDISE/MASS MERCHANTS

**What Brand of EAS Equipment are Retailers Using?**
**(in $ millions)**

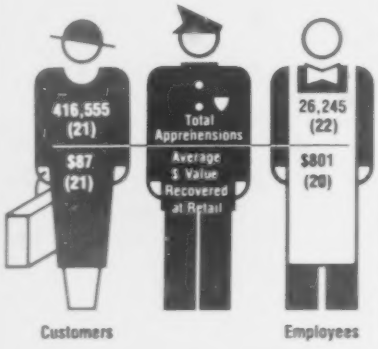



Total number of survey participants ..... 27
Number of responses to this question .....17

## EAS

Eighty-eight percent of the respondents used Sensormatic EAS equipment, 47% used Checkpoint, and 24% used Knogo.

**Apprehensions and Dollars Recovered**




Total number of survey participants 27
( ) = Number of responses to this question

## Apprehensions

Last year, the mass merchants recovered $22,606,000 in merchandise from customer apprehensions—an average of $87 per apprehension. They recovered $14,975,000 from employee apprehensions, or $801 per apprehension.

Seventy-eight percent of mass merchants sought civil restitution from apprehended customers and employees last year. More than 32,000 cases were attempted and 3,000 cases were settled, for an average recovery of $247,000 per merchant.

# SPECIALTY: APPAREL

*Of the 21 specialty apparel retailers that responded to this year's survey, two had sales in 1989 of $1 billion or more, three had sales in the $400 million-$999 million range, five had sales in the $100 million-$399 million range, and 11 had sales of less than $100 million.*

*These retailers had an average of 383 stores and together operated 8,049.*

## Expenses and Capital Expenditures

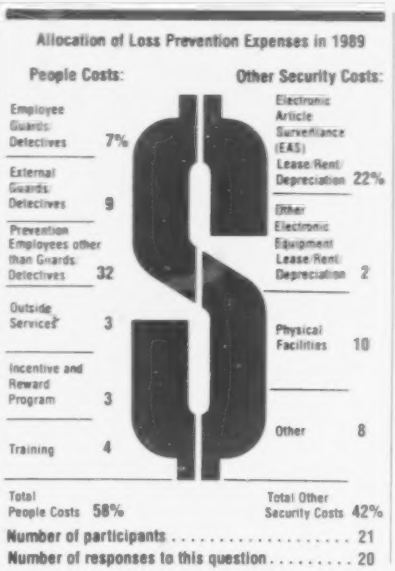
The apparel specialty stores spent $31,039,000 on loss prevention in 1989, for an average of $1,478,000 per merchant. As a percentage of sales these retailers spent 0.39%, the second highest percentage in our survey. This percentage was unchanged from 1988.

Specialty apparel stores with revenues of $1 billion had expenses averaging $8,863,000, or 0.58% of sales. Companies in the $400-$999 million range averaged $2,347,000, or 0.34% of sales. Stores in the $100-$399 million range averaged $951,000, or 0.29% of sales. And companies under $100 million averaged $138,000, or 0.41% of sales.

Total capital expenditure was $5,621,000 or $312,000 per respondent—up from $258,000 in 1988. EAS accounted for a survey-high 76% of security expenditures; alarms accounted for 14% and other electrical equipment accounted for 8%.

| | All Specialty Apparel | | Participants by 1989 Sales Volume in $Millions | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Under $100 | | $100 to $399 | | $400 to $999 | | $1,000 or more | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| Total Number of Survey Participants | 21 | 21 | 11 | 11 | 5 | 5 | 3 | 3 | 2 | 2 |
| Average Expenses as a Percent of Sales | 0.39% (21) | 0.39% (19) | 0.41% (11) | 0.40% (9) | 0.29% (5) | 0.32% (5) | 0.34% (3) | 0.34% (3) | 0.58% (2) | 0.61% (2) |
| Average Expenses (in $ thousands) | $1,478 (21) | $1,504 (19) | $138 (11) | $122 (9) | $951 (5) | $834 (5) | $2,347 (3) | $2,099 (3) | $8,863 (2) | $8,501 (2) |
| Total Expenses (in $ thousands) | $31,039 (21) | $28,567 (19) | $1,516 (11) | $1,099 (9) | $4,755 (5) | $4,171 (5) | $7,042 (3) | $6,296 (3) | $17,726 (2) | $17,001 (2) |

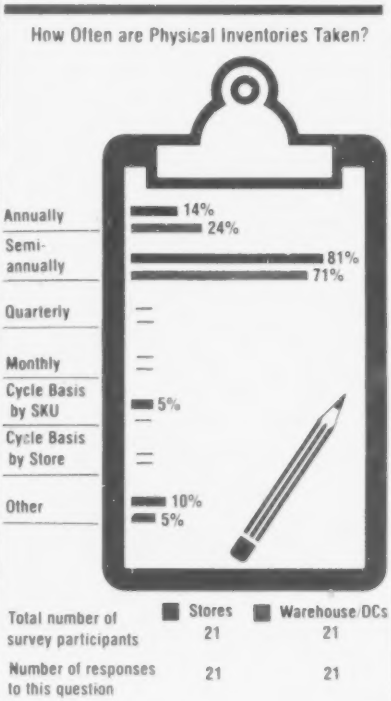
( ) = Number of responses to this question.


Allocation of Loss Prevention Expenses in 1989
People Costs:
Other Security Costs:
Employee Guards/Detectives 7%
External Guards/Detectives 9
Prevention Employees other than Guards/Detectives 32
Outside Services 3
Incentive and Reward Program 3
Training 4
Electronic Article Surveillance (EAS) Lease/Rent/Depreciation 22%
Other Electronic Equipment Lease/Rent/Depreciation 2
Physical Facilities 10
Other 8
Total People Costs 58%
Total Other Security Costs 42%
Number of participants ..... 21
Number of responses to this question ..... 20

While people costs accounted for the lion's share of expenses, its total of 58% was lower than any other class of trade. About 50% were allocated to internal and external guards, detectives and outside services.

For respondents with revenues below $100 million, people costs accounted for 50% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 64%; for companies in the $400 million-$999 million range, their costs were 62%; and for companies with revenues over $1 billion, people costs accounted for 89% of loss prevention expenses.

# SPECIALTY: APPAREL




## Physical Inventory Approaches

Eighty-one percent took their store's inventory twice a year; 14% took it annually. Seventy-one percent took their warehouse/DC inventory twice a year; 24% took it annually.

Seventeen out of 18 respondents completed store inventory in one day or less. In the warehouse, 10 of 18 respondents took inventory in one day, two took it in one-and-a-half days, and five took it in two days. Three of these five respondents had facilities larger than 350,000 feet.

| Specialty Apparel by Retail Store Size in Square Feet | Number of Days | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Under 1 | 1 | 1½ | 2 | 2½ | 3 | Over 3 | Total |
| Under 2,500 | — | 3 | — | — | — | — | — | 3 |
| 2,500 to 7,499 | 1 | 7 | 1 | — | — | — | — | 9 |
| 7,500 to 19,999 | 2 | 1 | — | — | — | — | — | 3 |
| 20,000 to 49,999 | — | 2 | — | — | — | — | — | 2 |
| 50,000 to 99,999 | — | 1 | — | — | — | — | — | 1 |
| 100,000 or More | — | — | — | — | — | — | — | — |
| All Specialty Apparel | 3 | 14 | 1 | — | — | — | — | 18 |
| [illegible] | | | | | | | | |
| Under 75,000 | NA | 7 | 1 | — | — | — | — | 8 |
| 75,000 to 150,000 | NA | 2 | — | 1 | — | — | 1 | 4 |
| 151,000 to 350,000 | NA | 1 | 1 | 1 | — | — | — | 3 |
| Over 350,000 | NA | — | — | 3 | — | — | — | 3 |
| All Specialty Apparel | NA | 10 | 2 | 5 | — | — | 1 | 18 |

Total number of survey participants 21

NA = not applicable.

# SPECIALTY: APPAREL

## HOW MANY PEOPLE DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY?

| Specialty Apparel by Retail Store Size In Square Feet | Average | Minimum | Maximum |
|---|---|---|---|
| Under 2,500 | 7 (3) | 6 (1) | 9 (1) |
| 2,500 to 7,499 | 12 (9) | 7 (2) | 20 (1) |
| 7,500 to 19,999 | 13 (3) | 11 (2) | 18 (1) |
| 20,000 to 49,999 | 43 (2) | 40 (1) | 45 (1) |
| 50,000 to 99,999 | 150 (1) | 150 (1) | 150 (1) |
| 100,000 or More | — — | — — | — — |
| All Specialty Apparel | 22 (18) | 6 (1) | 150 (1) |
| **Specialty Apparel by Warehouse Size In Square Feet** | **Average** | **Minimum** | **Maximum** |
| Under 75,000 | 18 (8) | 10 (2) | 40 (1) |
| 75,000 to 150,000 | 37 (4) | 4 (1) | 75 (1) |
| 151,000 to 350,000 | 75 (3) | 50 (1) | 100 (1) |
| Over 350,000 | 140 (3) | 20 (1) | 300 (1) |
| All Specialty Apparel | 52 (18) | 4 (1) | 300 (1) |

Total number of survey participants 21
( ) = Number of responses to this question.

### Who Takes Store Physical Inventories?

| | |
|---|---|
| An Inventory Taking Service | 11 |
| Store Employees Within the Store | 12 |
| Employees Hired for Inventory Taking Purposes | 2 |
| Store Employees From Another Store | 2 |
| Other Employees | 1 |
| Other | — |

Number of participants ..... 21

Number of responses to this question ..... 21

An average of 22 people per store were needed to take physical inventory. For stores 50,000-99,999 feet, an average of 150 people were required to perform the inventory. For stores 20,000-49,999 feet, it took an average of 43 people.

For stores 7,500-19,999 feet, it took 13 people. For stores 2,500-7,499 feet it required 12 people. And for stores under 2,500 feet, it took an average of seven people.

In the warehouse/DC, an average of 52 people were needed to take inventory. For facilities larger than 350,000 feet, it required an average of 140 people. For warehouses 151,000-350,000 feet, it took 75 people. For facilities 75,000-150,000 feet, it took 37 people. And for warehouses under 75,000 feet, it required an average of 18 people to perform the inventory.

At 57% of the companies, inventory was taken by store employees within the store. Fifty-two percent used an inventory-taking service.

Of the apparel retailers who used an inventory-taking service for store physicals, 10 used RGIS and two used Washington. Only six used RGIS in the warehouse/DC, and one used Washington.

# SPECIALTY: APPAREL

## WHAT IS THE ESTIMATED ANNUAL COST OF TAKING A PHYSICAL INVENTORY?

| | All Specialty Apparel | Participants by 1989 Sales Volume in $Millions | | | |
|---|---|---|---|---|---|
| | | Under $100 | $100-$399 | $400-$999 | $1,000 or More |
| Total Number of Survey Participants | 21 | 11 | 5 | 3 | 2 |
| Number of Responses to this Question | 16 | 9 | 3 | 3 | 1 |
| Under $50,000 | 4 | 4 | — | — | — |
| $50,000 to $199,999 | 6 | 5 | — | 1 | — |
| $200,000 to $999,999 | 6 | — | 3 | 2 | 1 |
| $1,000,000 or more | — | — | — | — | — |
| Average Cost of Physical Inventory Taking (in $ thousands) | $206 | $62 | $342 | $322 | $750 |

The cost of taking inventory averaged $206,000. For the respondent with revenues over $1 billion, the cost was $750,000. For companies with revenues of $400 million to $999 million, the average was $322,000. For companies with revenues of $100 million to $399 million, the average was $342,000. And for companies with revenues under $100 million, the average cost was $62,000.

The high-shrink department was fashion accessories and costume jewelry, at 4.32% of sales. The low-shrink department was health and beauty aids, at 1% of sales.

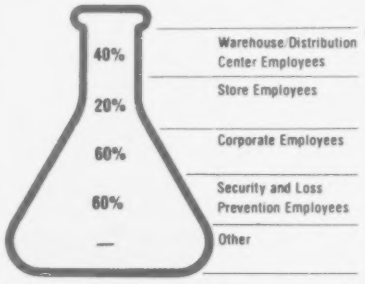
### What is the Highest Shrinkage Department?

| | Ladie's Apparel | Men's Apparel | Juniors | Health and Beauty Aids | Fine Jewelry | Shoes | Fashion Accessories and Costume Jewelry | Toys, Hobbies and Games | Records, Cassettes, CDs and Videotapes | Radios, Televisions and Stereos | Sporting Goods |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Shrinkage Percentage | 1.43% | 1.18% | 1.84% | 1.00% | 1.84% | 1.17% | 4.32% | 4.00% | — | — | 4.00% |
| Number of respondents | 9 | 8 | 3 | 1 | 2 | 3 | 4 | 1 | — | — | 1 |

Total number of survey participants 21

# SPECIALTY: APPAREL

**On Which Employees is Drug Testing Performed?**



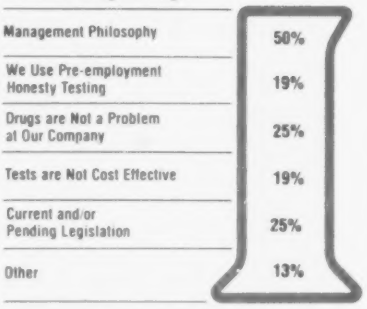

Total number of survey participants . . . . . 21
Number of responses to this question . . . . . 5

**When is Drug Testing Performed?**

| | |
|---|---|
| Pre-employment Screening | 100% |
| Only When Suspicion Exists | 20% |
| Periodic Testing | — |
| Other | — |

Total number of survey participants . . . . . 21
Number of responses to this question . . . . . 5

**Why Doesn't Your Company Perform Drug Testing?**




Total number of survey participants . . . . . 21
Number of responses to this question . . . . . 16

## Drugs in the Workplace

Of the five specialty apparel stores who said they performed drug testing, 60% tested their corporate and loss prevention employees, 40% tested their warehouse/DC employees, and 20% tested their store employees.

All five of the respondents said they tested during preemployment screening, and 20% said they tested only when suspicion exists.

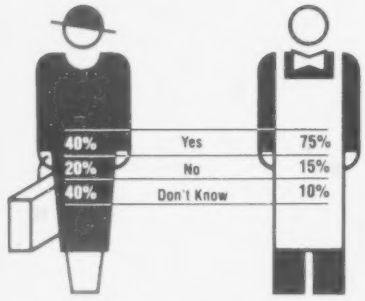
When asked why they didn't conduct drug tests, 50% cited management philosophy, 25% said drugs were not a problem at their company, and 25% identified current and/or pending legislation.

Forty percent said there was evidence that customers caught shoplifting had been using drugs. Twenty percent said there was no evidence and 40% didn't know. In the case of employee theft, 75% said there was evidence of drug use, 15% said there was no evidence, and 10% said they didn't know.

At 52%, the companies knew about their employees' drug use because the employees confessed. Fourteen percent cited the personal history of the employee, 12% cited behavior, 8% went by a police report, and 6% cited appearance. As for customers, 39% of respondents went by confessions, 22% indicated behavior, 21% used a police report, and 14% cited appearance.

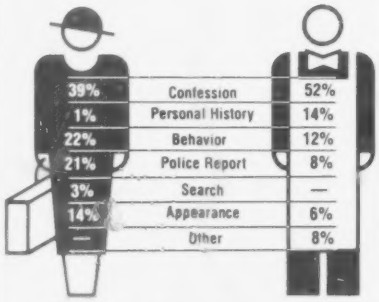
The police were involved in 32% of customer and 56% of employee apprehensions. They were notified in 19% of customer and 9% of employee apprehensions.

**Was There Any Evidence That Thefts Were Drug Related?**



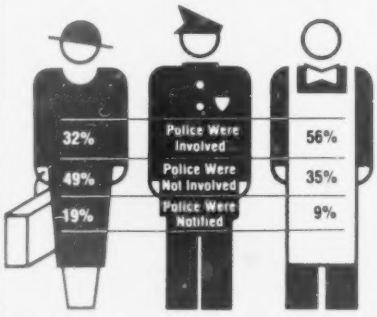

| Customers | | Employees |
|---|---|---|
| 21 | Total number of survey participants | 21 |
| 20 | Number of responses to this question | 20 |

**How Did You Know Thefts Were Drug Related?**




| Customers | | Employees |
|---|---|---|
| 21 | Total number of survey participants | 21 |
| 8 | Number of responses to this question | 15 |

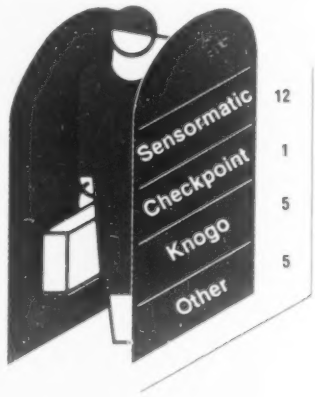
**Were Police Involved in Apprehensions?**




| Customers | | Employees |
|---|---|---|
| 21 | Total number of survey participants | 21 |
| 7 | Number of responses to this question | 16 |

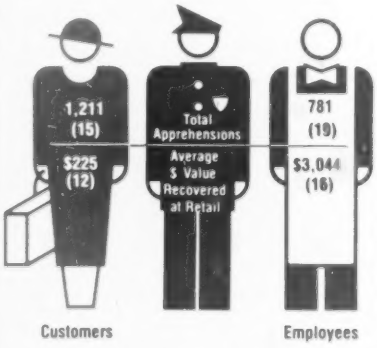
# SPECIALTY: APPAREL

**What Brand of EAS Equipment are Retailers Using?**
**(in $ millions)**




Total number of survey participants . . . . . 21
Number of responses to this question . . . . . 14

**Apprehensions and Dollars Recovered**




Total number of survey participants 21
( ) = Number of responses to this question

## EAS

Eighty-six percent of respondents used Sensormatic EAS equipment, 36% used Knogo, 36% used "other," and 7% used Checkpoint.

## Apprehensions

In 1989, the respondents recovered $783,000 in merchandise from apprehended customers, or $225 per apprehension. The value of merchandise recovered from apprehended employees was $631,000, or $3044 per apprehension.

Thirty-eight percent of softline companies sought civil restitution from apprehended people in 1989. Just 77 cases were attempted and 34 settled, and an average of only $18,000 per company was recovered.

CASE STUDY: SAKS FIFTH AVENUE

# Saks Sees Results with Deterrence Program

Saks Fifth Avenue: A fashion specialty store
Number of stores: 48
Region: nationwide
Annual revenue: $1.3 billion

"In loss prevention, you are always dealing with human nature," says Armand Rumayor, Security and Loss Prevention VP for Saks Fifth Avenue. "The more you understand that and capitalize on it, the more successful you will be."

He ought to know. A loss-prevention professional since 1967, Rumayor has been running the Saks program since 1983. And he knows what works—and what doesn't.

One approach that does not work is trying to apprehend every shoplifter that comes through the doors. "They're like barbarians," says Rumayor. "They seem to come from everywhere, and in great numbers." For this reason, Saks has for six or seven years put its effort into deterrence.

Deterrence at Saks begins with employee awareness. And awareness, says Rumayor, begins with human nature—that is, it plays off people's sentiments and tendencies.

For example, most people respond to awareness programs that are continuous rather than intermittent, says Rumayor. So the company works hard to sustain a program and maintain momentum. "Just as you can't let down in generating sales, you can't let down in an awareness program," he says.

One successful, ongoing program is Saks' poster contest. A few years ago, Rumayor solicited loss-prevention artwork from Saks employees and the response was tremendous. While the company has to pay for printing, the poster program has been a low-cost way to heighten awareness. And because there have been so many good submissions, Rumayor will be able to print and display new ones two or three times a year for several years to come.

The company is also using videotapes. "You are always vying for the time and attention of sales associates," says Rumayor. "So we produce videotapes dealing with issues like shoplifting and internal dishonesty and screen them for associates, on the sales floor, 10 to 15 minutes before the store opens." The tapes, which are no longer than about five minutes, "keep the associates' attention and get them back on the selling floor quickly," he says. "Very effective."

**Gimmicks, gimmicks and more gimmicks:** "Gimmicks," as Rumayor says, are essential. One of his favorites is the helium balloon reminder.

At closing time, associates and managers are required to go through a number of security procedures—doors must be locked, registers closed out, etc. Many stores have a security person go through the store after closing to see that these procedures have been carried out properly. If they haven't, the security person will leave a helium balloon for the person responsible. Of course, the balloon will have a logo on it. "You must have logos in loss prevention!" says Rumayor.

Rumayor is also fond of loss-prevention "festivities." Periodically, sales associates will be surprised when they walk into their store in the morning and find it decorated with streamers and signs celebrating "Loss Prevention Day." Often, the staff will be treated to a pizza lunch. And, of course, a loss-prevention logo will be stamped on the pizza itself.

"Merchants are always doing things like this to promote business," says Rumayor. "Loss-prevention professionals have to do the same thing."

**Incentives:** Also important, says Rumayor, are incentives—both cash and non-cash. At Saks, if an associate provides information that prevents a shoplifter from, say, perpetrating a credit card fraud, the store will give that person $25-$500 plus an award certificate. And the award will be made publicly.

But sometimes, Rumayor finds other ways to reward associates. If a team in a store does a particularly good job, he might take a photo of them, put it on a poster, and display the poster in the store.

Invariably, says Rumayor, when he visits a store and goes into the stock area, he'll see old posters and award certificates on the walls. "The employees put them there," he says. "They respond well to this kind of recognition."

Also critical to any loss-prevention program is customer service, says Rumayor. "Good customer service doesn't just make customers happy," he says. "It deters shoplifters. So we preach customer service in loss-prevention training."

**Technology:** Technology is also an effective deterrent, says Rumayor—especially closed-circuit TV and EAS. Some Saks stores use as many as 20 CCTV cameras; they are both overt and covert, with the overt ones having a deterrence value. At employee entrances, there are often five or six TV monitors visible.

CCTV is efficient, too, because one detective can watch all 20 monitors, and because minimal time is needed for installation. This is helpful, says Rumayor,

## CASE STUDY: SAKS FIFTH AVENUE

because Saks believes cameras should be moved frequently.

**EAS works:** EAS is essential for a large retailer, says Rumayor. "Maybe a specialty retailer can do without it," he says. "But once you're up to 100,000 feet, you don't have enough security people, nor can you have enough sales associates.

"EAS works," he continues. "But like all technologies, you have to manage it. You have to make sure everything is tagged."

But what if someone defeats a tag? "If you find the tag, you can use it to your advantage," he says. "First, it tells you definitively that you've had a theft, and that can be difficult to determine otherwise. Second, if you know where a theft has occurred, you know where to put a camera."

Rumayor is excited by Sensormatic's Smart Tag. An alarm is contained in this tag, so if someone leaves a store with it, it will continue to sound. And if someone tries to defeat the tag, the alarm goes off.

**Employee theft:** While employee theft is nothing new, Rumayor says employee manipulation of the sales system is becoming increasingly sophisticated, so that now, employees are finding ways to steal money, not just merchandise. Fortunately, he has a new technology to combat it.

A software system created by Eastbourne Consulting, the program monitors the POS system for extraordinary activity in returns and other transactions, telling you, for example, that last week on one credit card, there were five returns. It can then tell you when these returns occurred and at what time of day. And ultimately, you can find out whose card it is. Recently, Rumayor used this system to discover that one of Saks' employees was ringing up returns against his own credit card.

**The bottom line:** The result of Saks' "deterrence program" has been a significant reduction in shrinkage. Five years ago, shrink was about 2.8% of sales. Now, says Rumayor, it's 2.0%.

The company aims for 2.0%, though Rumayor says it can be—and has been—as low as 1.8%. The problem is money.

"You can spend more money and drive the result lower, but there's a tradeoff," he says. At some point you come close to spending as much as you save.

**The future:** In the future, Rumayor plans to stay with what's working. "I think there's more payback on deterrence," he says. "I'd rather have a shoplifter say, 'I don't want to go to Saks—too difficult.'"

The company will also continue pre-employment screening. This testing procedure has served to weed out potential problem employees, and has done so very effectively. Rumayor says that through this test, one out of five people reveal that they have stolen in the past, or that they will probably be unproductive.

Rumayor is concerned, however, that the future of this psychological test may be in jeopardy. "It's another privacy issue," he says. Eventually, it may be considered a personal intrusion, just as the polygraph test was.

"There's nothing easy about loss prevention," says Rumayor. "And it doesn't look like it's going to get any easier either."

# SPECIALTY: HARDLINES

*Thirty-seven specialty hardliners responded to this year's survey, more than any other segment. Of this group, five had sales of $1 billion or more, three had sales in the $400 million-$999 million range, 10 had sales in the $100 million-$399 million range, and 19 had sales of less than $100 million.*

*These retailers operated an average of 123 stores. Together, they operated 4,568.*

## Expenses and Capital Expenditures

Hardline specialty stores spent $11,319,000 on loss prevention in 1989. The average was $343,000 per respondent, or 0.17% of sales. On a same-respondent basis, expenses increased from 0.16% in 1988 to 0.18% in 1989.

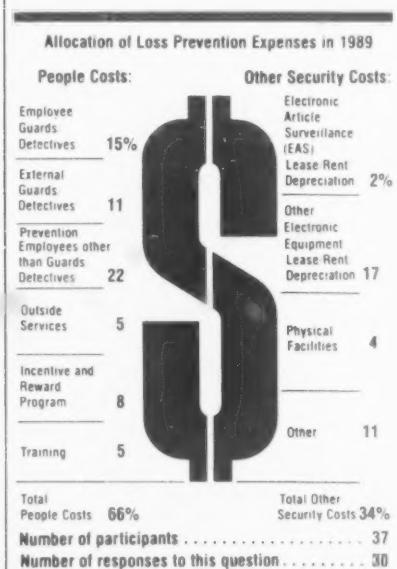
Hardliners with revenues of $1 billion had expenses averaging $955,000, or 0.07% of sales. Companies in the $400-$999 million range averaged $575,000, or 0.06% percent of sales. Companies in the $100-$399 million range averaged $287,000, or 0.12% of sales. Hardliners with revenues under $100 million averaged $140,000, or 0.26% of sales.

Capital expenditures in 1989 were $2,114,000 or $73,000 per respondent. Alarms accounted for an extraordinary 63% of those expenditures, while EAS accounted for just 12%—a figure that was down from 16% in 1988. Other electrical equipment accounted for 25%.

**ANALYSIS OF LOSS PREVENTION EXPENSES**

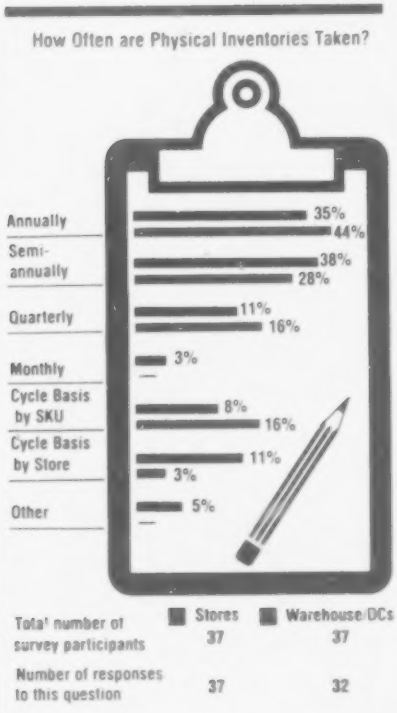
| | All Specialty Hardlines | | Participants by 1989 Sales Volume in $Millions | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Under $100 | | $100 to $399 | | $400 to $999 | | $1,000 or more | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| Total Number of Survey Participants | 37 | 37 | 19 | 19 | 10 | 10 | 3 | 3 | 5 | 5 |
| Average Expenses as a Percent of Sales | 0.17% (32) | 0.16% (30) | 0.26% (15) | 0.22% (15) | 0.12% (9) | 0.11% (7) | 0.06% (3) | 0.06% (3) | 0.07% (5) | 0.07% (5) |
| Average Expenses (in $ thousands) | $343 (33) | $327 (29) | $140 (16) | $117 (15) | $287 (9) | $205 (7) | $575 (3) | $867 (2) | $955 (5) | $909 (5) |
| Total Expenses (in $ thousands) | $11,319 (33) | $9,471 (29) | $2,236 (16) | $1,756 (15) | $2,582 (9) | $1,436 (7) | $1,724 (3) | $1,733 (2) | $4,777 (5) | $4,546 (5) |

( ) = Number of responses to this question


Allocation of Loss Prevention Expenses in 1989
People Costs:
Employee Guards Detectives 15%
External Guards Detectives 11
Prevention Employees other than Guards Detectives 22
Outside Services 5
Incentive and Reward Program 8
Training 5
Total People Costs 66%
Other Security Costs:
Electronic Article Surveillance (EAS) Lease Rent Depreciation 2%
Other Electronic Equipment Lease Rent Depreciation 17
Physical Facilities 4
Other 11
Total Other Security Costs 34%
Number of participants 37
Number of responses to this question 30

People costs accounted for 66% of total expenses, with internal and external guards/detectives, other loss prevention employees and outside services accounting for about 53%. For respondents with revenues below $100 million, people costs accounted for 59% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 72%; for companies in the $400 million-$999 million range, their costs were 66%; and for companies with revenues over $1 billion, people costs accounted for 76% of loss prevention expenses.

# SPECIALTY: HARDLINES




## Physical Inventory Approaches

Thirty-eight percent of respondents took store physical inventories twice a year, 35% took it annually, and 11% took it on a cycle basis by store or quarterly. Forty-four percent took their warehouse/DC inventory annually, 28% took it twice a year, and 16% took it on a cycle basis by sku or quarterly.

Twenty-three of 34 respondents took store physical inventory in one day or less. Four did it in one-and-a-half days, four did it in two days, one did it in two-and-a-half days, and two did it in three days.

In the warehouse/DC, 12 of 27 respondents took inventory in one day, and two had facilities over 350,000 feet. Nine took it in two days, and three took it in three days.

| Specialty Hardlines by Retail Store Size In Square Feet | HOW MANY DAYS DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY? Number of Days | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Under 1 | 1 | 1½ | 2 | 2½ | 3 | Over 3 | Total |
| Under 2,500 | — | 3 | — | — | — | — | — | 3 |
| 2,500 to 7,499 | 1 | 5 | 2 | — | — | — | — | 8 |
| 7,500 to 19,999 | — | 5 | 2 | 3 | — | — | — | 10 |
| 20,000 to 49,999 | — | 4 | — | [illegible] | — | 2 | — | 7 |
| 50,000 to 99,999 | — | 5 | — | — | 1 | — | — | 6 |
| 100,000 or More | — | — | — | — | — | — | — | — |
| All Specialty Hardlines | 1 | 22 | 4 | 4 | 1 | 2 | — | 34 |
| [illegible] | | | | | | | | |
| Under 75,000 | NA | 5 | 1 | 1 | — | — | — | 7 |
| 75,000 to 150,000 | NA | 2 | — | 6 | 1 | — | — | 9 |
| 151,000 to 350,000 | NA | 3 | — | 1 | 1 | 2 | — | 7 |
| Over 350,000 | NA | 2 | — | 1 | — | 1 | — | 4 |
| All Specialty Hardlines | NA | 12 | 1 | 9 | 2 | 3 | — | 27 |

Total number of survey participants 37

NA = not applicable

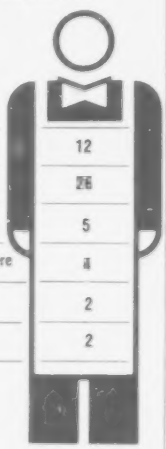
# SPECIALTY: HARDLINES

## HOW MANY PEOPLE DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY?

| Specialty Hardlines by Retail Store Size In Square Feet | Average | Minimum | Maximum |
|---|---|---|---|
| Under 2,500 | 3<br>(3) | 1<br>(1) | 6<br>(1) |
| 2,500 to 7,499 | 7<br>(8) | 2<br>(1) | 15<br>(1) |
| 7,500 to 19,999 | 16<br>(10) | 3<br>(1) | 40<br>(1) |
| 20,000 to 49,999 | 35<br>(7) | 10<br>(1) | 102<br>(1) |
| 50,000 to 99,999 | 34<br>(6) | 2<br>(1) | 100<br>(1) |
| 100,000 or More | —<br>— | —<br>— | —<br>— |
| All Specialty Hardlines | 20<br>(34) | 1<br>(1) | 102<br>(1) |
| Specialty Hardlines by [illegible] | [illegible] | [illegible] | [illegible] |
| Under 75,000 | 12<br>(7) | 4<br>(1) | 25<br>(1) |
| 75,000 to 150,000 | 21<br>(9) | 3<br>(1) | 50<br>(1) |
| 151,000 to 350,000 | 49<br>(7) | 10<br>(1) | 102<br>(1) |
| Over 350,000 | 64<br>(4) | 25<br>(1) | 120<br>(1) |
| All Specialty Hardlines | 32<br>(27) | 3<br>(1) | 120<br>(1) |

Total number of survey participants 37
( ) = Number of responses to this question

### Who Takes Store Physical Inventories?



| | |
|---|---|
| An Inventory Taking Service | 12 |
| Store Employees Within the Store | 26 |
| Employees Hired for Inventory Taking Purposes | 5 |
| Store Employees From Another Store | 4 |
| Other Employees | 2 |
| Other | 2 |
| Number of participants | 37 |
| Number of responses to this question | 37 |

An average of 20 people per store were needed to take inventory. Respondents with stores averaging 50,000-99,999 feet required 34 people to perform an inventory. For stores 20,000-49,999 feet it took 35 people. For stores 7,500-19,999 feet, it required 16 people. For stores 2,500-7,499 feet, it took an average of seven people. And for stores under 2,500 feet, it required an average of three people.

In the warehouse/DC, an average of 32 people were needed to take inventory. For facilities over 350,000 feet, an average of 64 people were needed. For warehouses 151,000-350,000 feet, 49 people were used. For 75,000-150,000-foot facilities, an average of 21 people were needed. And for facilities under 75,000 feet, 12 people on average were used to take inventory.

The store's inventory was taken by store employees within the store at 70% of the hardliners. An inventory-taking service was hired at 32%. Fourteen percent hired employees for inventory purposes only, and 11% used employees from another store.

Of the hardline retailers who used an inventory-taking service, nine used RGIS, six used Washington, and one used Capital. Four of nine respondents used RGIS in the warehouse/DC, one used Washington, one used Capital, and four used other services.

# SPECIALTY: HARDLINES

## WHAT IS THE ESTIMATED ANNUAL COST OF TAKING A PHYSICAL INVENTORY?

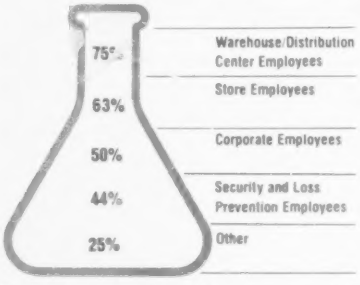
| | All Specialty Hardlines | Participants by 1989 Sales Volume in $Millions | | | |
|---|---|---|---|---|---|
| | | Under $100 | $100-$399 | $400-$999 | $1,000 or More |
| Total Number of Survey Participants | 37 | 19 | 10 | 3 | 5 |
| Number of Responses to this Question | 33 | 16 | 10 | 2 | 5 |
| Under $50,000 | 12 | 11 | 1 | — | — |
| $50,000 to $199,999 | 9 | 5 | 4 | — | — |
| $200,000 to $999,999 | 8 | — | 4 | 2 | 2 |
| $1,000,000 or more | 4 | — | 1 | — | 3 |
| Average Cost of Physical Inventory Taking (in $ thousands) | $673 | $41 | $243 | $400 | $3,666 |

The cost of taking inventory in 1989 averaged $673,000. For hardliners with revenues of more than $1 billion, the average cost was $3,666,000.

For companies with revenues of $400 million to $999 million, the average was $400,000. For companies with revenues of $100 million to $399 million, the average was $243,000. And for companies with revenues below $100 million, the average cost was $41,000.

# SPECIALTY: HARDLINES

**On Which Employees is Drug Testing Performed?**



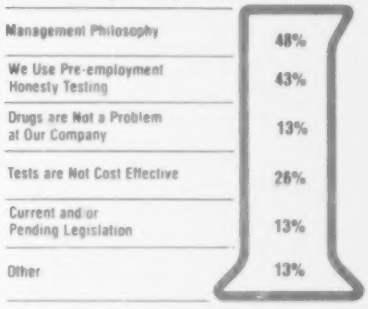

Total number of survey participants . . . . . 37
Number of responses to this question . . . . . 16

**When is Drug Testing Performed?**

| | |
|---|---|
| Pre-employment Screening | 69% |
| Only When Suspicion Exists | 56% |
| Periodic Testing | 13% |
| Other | 13% |

Total number of survey participants . . . . . 37
Number of responses to this question . . . . . 16

**Why Doesn't Your Company Perform Drug Testing?**


Management Philosophy 48%
We Use Pre-employment Honesty Testing 43%
Drugs are Not a Problem at Our Company 13%
Tests are Not Cost Effective 26%
Current and/or Pending Legislation 13%
Other 13%

Total number of survey participants . . . . . 37
Number of responses to this question . . . . . 23

## Drugs in the Workplace

Of the 16 hardline retailers who performed drug testing, 75% tested their warehouse/DC employees, 63% tested their store employees, 50% tested their corporate employees, and 44% tested their loss prevention employees.

Sixty-nine percent tested during preemployment screening, 56% did it only when suspicion existed, 13% did it periodically, and another 13% cited "other."

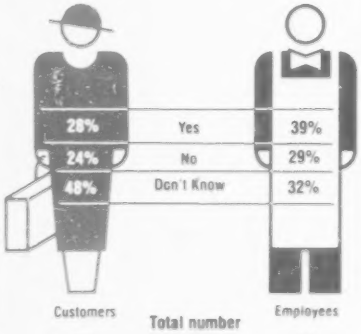
When asked why they are not currently performing drug testing, 48% cited management philosophy, 43% said they use preemployment honesty testing, 26% said the tests are not cost effective, 13% said drugs are not a problem at their company, and another 13% cited current and/or pending legislation.

Twenty-eight percent said there was evidence that apprehended customers had been using drugs. Twenty-four percent said there was no evidence, and 48% didn't know. Where employee theft was concerned, 39% said drug use was evident, 29% said it wasn't, and 32% didn't know.

Seventy-four percent knew that employee thefts were drug related because the employee confessed. Nine percent went by behavior, and 8% cited police reports. As for customers, 54% based their evidence on police reports, 16% went by confessions, 12% cited behavior, and 11% found evidence after conducting a search.

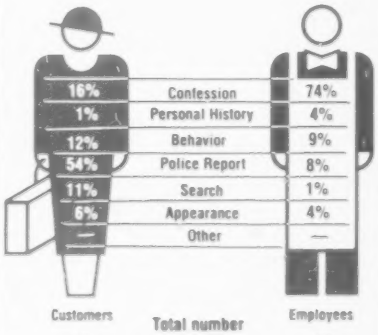
The police were involved in 62% of customer and 18% of employee apprehensions. They were notified in 18% of customer and 12% of employee apprehensions.

**Was There Any Evidence That Thefts Were Drug Related?**



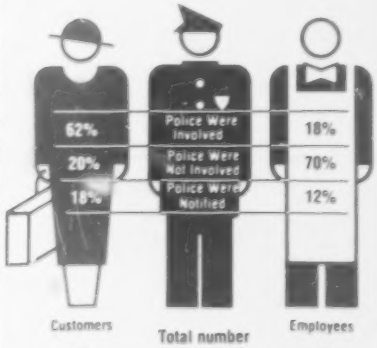

| Customers | | Employees |
|---|---|---|
| 37 | Total number of survey participants | 37 |
| 29 | Number of responses to this question | 34 |

**How Did You Know Thefts Were Drug Related?**




| Customers | | Employees |
|---|---|---|
| 37 | Total number of survey participants | 37 |
| 7 | Number of responses to this question | 13 |

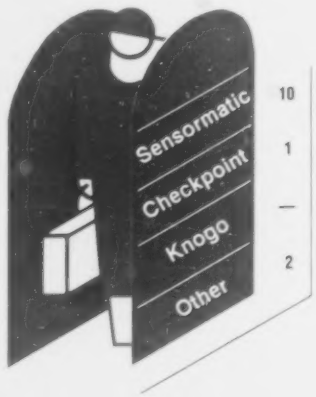
**Were Police Involved in Apprehensions?**




| Customers | | Employees |
|---|---|---|
| 37 | Total number of survey participants | 37 |
| 7 | Number of responses to this question | 12 |

## SPECIALTY: HARDLINES

**What Brand of EAS Equipment are Retailers Using?**
**(in $ millions)**

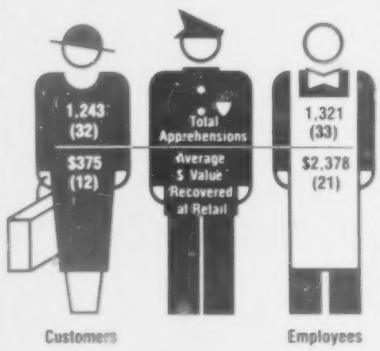



Total number of survey participants ..... 37
Number of responses to this question ..... 12

### EAS

Of the hardline retailers who used EAS, 10 used Sensormatic, one used Checkpoint, and two responded "other." None used Knogo.

**Apprehensions and Dollars Recovered**




Total number of survey participants 37
( ) = Number of responses to this question

### Apprehensions

The value of merchandise recovered from customer apprehensions was $312,000, or $375 per apprehension. The value of merchandise recovered from employee apprehensions was $1,759,000, or $2,378 per employee.

Fifty-seven percent of hardline retailers sought civil restitution from apprehended people in 1989. More than 200 cases were attempted and 164 were settled. Only $10,000 per company was recovered in 1989.

# SUPERMARKETS

*Of the 19 supermarkets responding to this year's survey, four had sales of $1 billion or more, seven had sales in the $400 million-$999 million range, two had sales of $100 million-$399 million, and six had sales of less than $100 million.*

*These companies operated an average of 74 markets; together, they operated 1,398.*

## Expenses and Capital Expenditures

Supermarkets spent a total of $24,856,000 on loss prevention in 1989, or $1,462,000 per company. As a percentage of sales they spent 0.22%, up from 0.19% in 1988.

Supermarkets with revenues of $1 billion had expenses averaging $3,524,000, or 0.10% of sales. Companies in the $400 million to $999 million range averaged $1,360,000 or 0.22% of sales. Companies in the $100 million to $399 million range averaged $363,000, or 0.27% of sales. And supermarkets under $100 million averaged $129,000, or 0.30% of sales, a 50% increase from 1988.

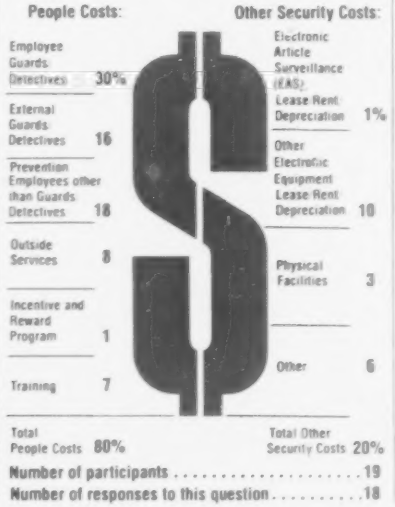
Capital expenditures actually declined by 34%—the only such decline in the survey. The total was $1,810,000 or $139,000 per company—down from $211,000 in 1988. Alarms accounted for 61% of those expenditures; other electrical equipment accounted for 35%. EAS, which is largely inappropriate for a supermarket, accounted for just 3%.

**ANALYSIS OF LOSS PREVENTION EXPENSE**

| | All Supermarkets | | Participants by 1989 Sales Volume in $Millions | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Under $100 | | $100 to $399 | | $400 to $999 | | $1,000 or more | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| Total Number of Survey Participants | 19 | 19 | 6 | 6 | 2 | 2 | 7 | 7 | 4 | 4 |
| Average Expenses as a Percent of Sales | 0.22% (17) | 0.19% (17) | 0.30% (4) | 0.20% (4) | 0.27% (2) | 0.25% (2) | 0.22% (7) | 0.23% (7) | 0.10% (4) | 0.10% (4) |
| Average Expenses (in $ thousands) | $1,462 (17) | $1,318 (17) | $129 (4) | $80 (4) | $363 (2) | $310 (2) | $1,360 (7) | $1,308 (7) | $3,524 (4) | $3,080 (4) |
| Total Expenses (in $ thousands) | $24,856 (17) | $22,410 (17) | $516 (4) | $318 (4) | $725 (2) | $620 (2) | $9,520 (7) | $9,154 (7) | $14,095 (4) | $12,318 (4) |

( ) = Number of responses to this question.

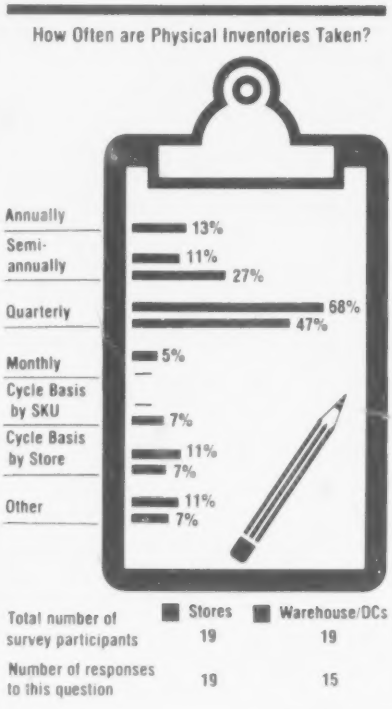
**Allocation of Loss Prevention Expenses in 1989**


People Costs:
Employee Guards Detectives 30%
External Guards Detectives 16
Prevention Employees other than Guards Detectives 18
Outside Services 8
Incentive and Reward Program 1
Training 7
Total People Costs 80%
Other Security Costs:
Electronic Article Surveillance (EAS) Lease Rent Depreciation 1%
Other Electronic Equipment Lease Rent Depreciation 10
Physical Facilities 3
Other 6
Total Other Security Costs 20%

Number of participants . . . . . 19
Number of responses to this question . . . . . 18

People costs accounted for 80% of the supermarkets' expenses. Internal and external labor accounted for 72%. For respondents with revenues below $100 million, people costs accounted for 78% of loss prevention expenses. For companies in the $100 million-$399 million range, people costs were 80%; for companies in the $400 million-$999 million range, their costs were 82%; and for companies with revenues over $1 billion, people costs accounted for 80% of loss prevention expenses.

# SUPERMARKETS




## Physical Inventory Approaches

Two respondents took store physical inventories twice a year, two took it on a cycle basis by store, one took it monthly, and 13 took it on a quarterly basis. Four supermarkets took their warehouse/DC inventory twice a year, two took it annually, seven took it quarterly and two took it on a cycle basis.

All of the supermarket respondents completed their store inventories in one day or less. Ten of 13 respondents completed warehouse inventory in one day; three of the 10 had facilities over 350,000 feet. Two respondents took two days and one took one-and-a-half days.

| Supermarkets by Retail Store Size in Square Feet | HOW MANY DAYS DOES IT TAKE TO PREPARE FOR A PHYSICAL INVENTORY? Number of Days | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Under 1 | 1 | 1½ | 2 | 2½ | 3 | Over 3 | Total |
| Under 2,500 | — | — | — | — | — | — | — | — |
| 2,500 to 7,499 | — | — | — | — | — | — | — | — |
| 7,500 to 19,999 | 2 | 1 | — | — | — | — | — | 3 |
| 20,000 to 49,999 | 4 | 9 | — | — | — | — | — | 13 |
| 50,000 to 99,999 | — | 2 | — | — | — | — | — | 2 |
| 100,000 or More | — | — | — | — | — | — | — | — |
| All Supermarkets | 6 | 12 | — | — | — | — | — | 18 |
| [illegible] | | | | | | | | |
| Under 75,000 | NA | 4 | — | — | — | — | — | 4 |
| 75,000 to 150,000 | NA | 3 | — | — | — | — | — | 3 |
| 151,000 to 350,000 | NA | — | — | 1 | — | — | — | 1 |
| Over 350,000 | NA | 3 | 1 | 1 | — | — | — | 5 |
| All Supermarkets | NA | 10 | 1 | 2 | — | — | — | 13 |

Total number of survey participants 19

NA = not applicable.

# SUPERMARKETS

## HOW MANY PEOPLE DOES IT TAKE TO PERFORM A PHYSICAL INVENTORY?

| Supermarkets by Retail Store Size in Square Feet | Average | Minimum | Maximum |
|---|---|---|---|
| Under 2,500 | —<br>— | —<br>— | —<br>— |
| 2,500 to 7,499 | —<br>— | —<br>— | —<br>— |
| 7,500 to 19,999 | 12<br>(3) | 8<br>(1) | 15<br>(1) |
| 20,000 to 49,999 | 15<br>(13) | 6<br>(2) | 28<br>(1) |
| 50,000 to 99,999 | 33<br>(2) | 15<br>(1) | 50<br>(1) |
| 100,000 or More | —<br>— | —<br>— | —<br>— |
| All Supermarkets | 16<br>(18) | 6<br>(2) | 50<br>(1) |
| [illegible] | | | |
| Under 75,000 | 5<br>(4) | 2<br>(1) | 10<br>(1) |
| 75,000 to 150,000 | 85<br>(3) | 35<br>(1) | 140<br>(1) |
| 151,000 to 350,000 | 8<br>(1) | 8<br>(1) | 8<br>(1) |
| Over 350,000 | 64<br>(5) | 10<br>(1) | 100<br>(1) |
| All Supermarkets | 46<br>(13) | 2<br>(1) | 140<br>(1) |

Total number of survey participants 19
( ) = Number of responses to this question.

### Who Takes Store Physical Inventories?

| | |
|---|---|
| An Inventory Taking Service | 16 |
| Store Employees Within the Store | 4 |
| Employees Hired for Inventory Taking Purposes | 4 |
| Store Employees From Another Store | 2 |
| Other Employees | 1 |
| Other | 1 |

Number of participants ..... 19

Number of responses to this question ..... 19

An average of 16 people per supermarket were needed to take a store physical inventory. For stores 50,000-99,999 feet, it took 33 people. For 20,000-49,999-foot supermarkets it took an average of 15 people. And for 7,500 - 19,999 foot markets, it required an average of 12 people.

In the warehouse/DC, an average of 46 people were needed to take inventory. For facilities over 350,000 feet, it required an average of 64 people. Only one respondent had a 151,000-350,000 foot facility, and that company used just eight people. For 75,000-150,000 foot warehouses, it took 85 people on average. And for facilities under 75,000 feet, it required an average of just five people.

Eighty-four percent hired an inventory-taking service to take inventory in their stores. Twenty-one percent used employees hired for inventory purposes only, another 21% used store employees within the store, and 11% used store employees from another store.

Of the supermarkets that used an inventory-taking service, 81% used RGIS and 38% used Washington. Two supermarkets used RGIS in the warehouse/DC, and another two used services other than RGIS, Washington or Capital.

# SUPERMARKETS

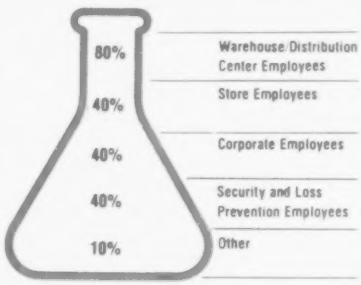
## WHAT IS THE ESTIMATED ANNUAL COST OF TAKING A PHYSICAL INVENTORY?

| | All Supermarkets | Participants by 1989 Sales Volume in $Millions | | | |
|---|---|---|---|---|---|
| | | Under $100 | $100-$399 | $400-$999 | $1,000 or More |
| Total Number of Survey Participants | 19 | 6 | 2 | 7 | 4 |
| Number of Responses to this Question | 14 | 6 | 2 | 3 | 3 |
| Under $50,000 | 7 | 5 | 1 | 1 | — |
| $50,000 to $199,999 | 1 | 1 | — | — | — |
| $200,000 to $999,999 | 4 | — | 1 | 2 | 1 |
| $1,000,000 or more | 2 | — | — | — | 2 |
| Average Cost of Physical Inventory Taking (in $ thousands) | $547 | $24 | $306 | $173 | $2,130 |

The average cost of taking inventory was $547,000 per supermarket. For companies with revenues of $1 billion or more, the average cost was $2,130,000. For companies with revenues of $400 million to $999 million, the average was $173,000. Two participants with revenues between $100 million and $399 million reported average inventory cost of $306,000. For supermarkets with revenues under $100 million, the average cost was $24,000.

# SUPERMARKETS

**On Which Employees is Drug Testing Performed?**



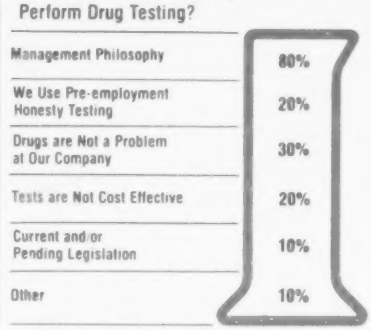

Total number of survey participants . . . . . 19
Number of responses to this question . . . . . 10

**When is Drug Testing Performed?**

| | |
|---|---|
| Pre-employment Screening | 80% |
| Only When Suspicion Exists | 30% |
| Periodic Testing | 30% |
| Other | 20% |

Total number of survey participants . . . . . 19
Number of responses to this question . . . . . 10

**Why Doesn't Your Company Perform Drug Testing?**




Total number of survey participants . . . . . 19
Number of responses to this question . . . . . 10

## Drugs in the Workplace

Of the 10 supermarkets who test their employees for drugs, 80% tested their warehouse/DC employees, and 40% tested their store, corporate, and loss prevention employees.

Eighty percent tested during preemployment screening, 30% tested periodically, and another 30% tested only when suspicion existed.

When asked why they didn't currently test, 80% cited management philosophy, 30% said drugs were not a problem at their company, 20% said they use preemployment honesty testing, and another 20% said the tests are not cost effective.

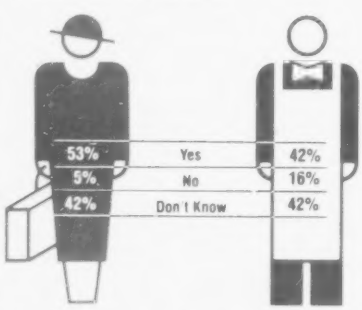
Fifty-three percent said drug use was evident in customers apprehended for shoplifting. Forty-two percent didn't know. Where employee theft was concerned, 42% believed drugs were evident and 42% didn't know.

Those participants that said drug use was evident estimate that 21% of their total customer apprehensions and 11% of their total employee apprehensions were drug related.

How did they know? At 41% the apprehended employee confessed, and at 23% the employee was searched and found with evidence. As for apprehended customers, at 12% they confessed to drug use, at 28% they were searched and found with evidence, at 16% their behavior made it evident, and at 36% it was based on the customer's appearance.

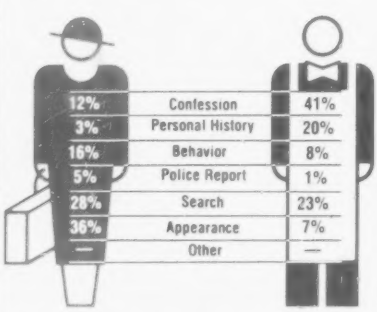
The police were involved in 67% of customer apprehensions and a survey-high 74% of employee apprehensions.

**Was There Any Evidence That Thefts Were Drug Related?**



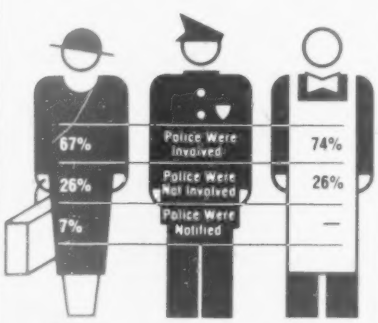

| Customers | | Employees |
|---|---|---|
| 19 | Total number of survey participants | 19 |
| 19 | Number of responses to this question | 19 |

**How Did You Know Thefts Were Drug Related?**




| Customers | | Employees |
|---|---|---|
| 19 | Total number of survey participants | 19 |
| 6 | Number of responses to this question | 5 |

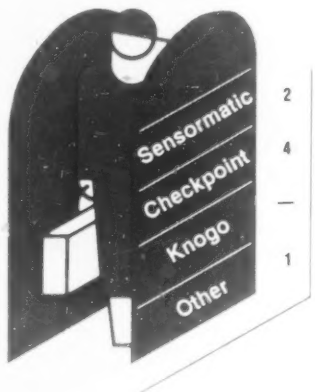
**Were Police Involved in Apprehensions?**




| Customers | | Employees |
|---|---|---|
| 19 | Total number of survey participants | 19 |
| 7 | Number of responses to this question | 5 |

# SUPERMARKETS

What Brand of EAS Equipment are Retailers Using?
(in $ millions)

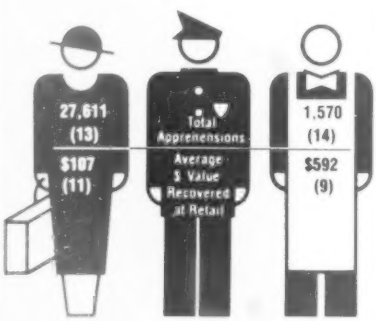



Total number of survey participants . . . . . 19
Number of responses to this question . . . . . 5

## EAS

Of the supermarkets that used EAS, 80% used Checkpoint equipment, only 20% used Sensormatic (the industry's brand leader), and 10% used other brands.

Apprehensions and Dollars Recovered




Total number of survey participants 19
( ) = Number of responses to this question

## Apprehensions

The participating supermarkets apprehended 27,611 customers and 1,570 employees in 1989. The total value of merchandise recovered from apprehended customers in 1989 was $751,000, or $107 per apprehended customer. The value of merchandise recovered from apprehended employees last year was $253,000, or $592 per apprehension.

Only 37% of supermarkets sought civil restitution from apprehended customers and employees in 1989. More than 8,000 cases were attempted and almost 3,000 were settled at an average recovery of only $47,000 per company. In 1988, the average recovery per supermarket was $55,000.

A CHICAGO CRIME STORY

# A Chicago Crime Story: Score one for the good guys

Sometimes, loss prevention is a frustrating exercise in damage control. But once in a while, it is as neat, clean and satisfying as an old Hollywood crime drama. Take the case of the recently concluded "Chicago sting" operation.

About two and a half years ago, in May 1988, Lew Shealy* decided he'd had enough of professional shoplifters. "I wasn't sure exactly how much they were taking, but I was sure they were killing us," says the then-VP of Loss Prevention for Marshall Fields.

So he approached the FBI and the sheriff of Cook County, Illinois, James O'Grady, and proposed a daring solution: an undercover "sting" operation, run by the sheriff's department and financed by Chicago-area retailers.

With the FBI's blessing, Sheriff O'Grady agreed to help and Shealy went into action, recruiting four other retailers to bankroll the operation. The four companies—Carson Pirie Scott, Evans Furs, Lord & Taylor and Nieman Marcus—contributed an initial $30,000, which they used to rent a storefront in a Chicago suburb.

Next they went to work on the "store" itself. The retailers contributed fixtures and inventory (all apparel), and five Cook County detectives were brought in for training. They learned to run the register and wait on customers, and of course, how to operate the closed-circuit television system that would be used for surveillance.

**Open for business:** Sixty days later, with everything in place and running properly, the store opened for business. To the criminal world, it soon became known as a place to sell stolen merchandise—a fencing operation called J & O Clothiers (for James O'Grady). To the loss-prevention community, it was the first privately funded sting operation in retail.

J & O's undercover men got things rolling by sizing up the "competition" and learning that other fences in the area were paying 25 cents on the dollar. They set their price at 30 cents and before long, "thief traffic" picked up at the store.

The policemen didn't buy everything the shoplifters brought in—that might have aroused suspicion. But they did establish business relationships, and more important, they gained their confidence. Soon, the undercover men were learning all about the world of professional shoplifting in the Chicago area.

In the 18 months of the operation, the thieves talked openly about how, when and where they stole, casually revealing many of their trade secrets. There was so much easy camaraderie, the undercover men actually accompanied the thieves on shoplifting expeditions!

**Tricks of the trade:** How did they steal? As the shoplifters explained, they always worked in pairs, and would often use shopping bags with foil liners—these defeat EAS tags. Or they'd carry "booster" boxes—empty cartons wrapped up like gifts, with false bottoms.

They'd only go into a store at noontime, when it's crowded, or at around 5:00 p.m., when sales associates generally change

## A CHICAGO CRIME STORY

shifts. And they loved to frequent stores with poor customer service. With indifferent or nonexistent sales help, it was much easier to steal merchandise.

And for these thieves, it was indeed easy. Of the dozens of professional shoplifters who frequented J & O Clothiers during the operation, Shealy says several stole as much as $10,000 a day, yet only two were apprehended by store detectives.

In the end, however, these people were a little too sure of themselves, and much too loose-lipped. Through their easy chatter, the police were able to identify 45 professional shoplifters in the Chicago area.

Many of them, Shealy says, actually volunteered their phone numbers and addresses. All the undercover men had to do was tell the criminals "the heat was on" and they might have to close down the store at any moment. "Give me your name and number," they'd say, "and we'll call you when our operation is up and running again."

**Going out of business:** By May of 1990, the police felt they had enough damaging information and the operation was concluded. By June, all 45 shoplifters were indicted by the Cook County Grand Jury and 13 were jailed. All had been videotaped in J & O Clothiers, and these tapes were distributed to areas stores, so their faces are now familiar in Chicago.

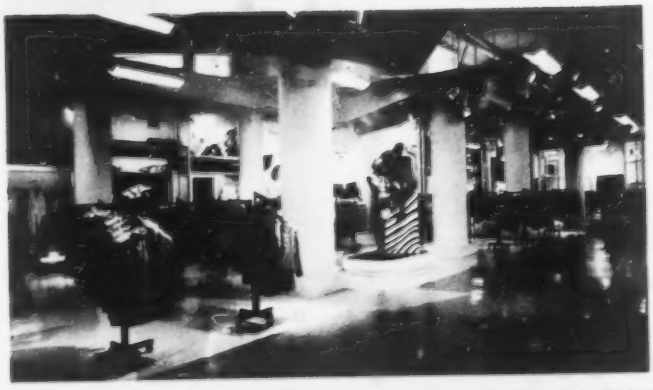
Also, some $1 million in stolen apparel was recovered from the store. And, through information passed along by the shoplifters, three "real" fencing operations were identified and shut down, and an additional $1 million was recovered.

But the operation proved to be even more of a law-enforcement bonanza than this. Through the shoplifters, a counterfeiting operation was uncovered and several arrests were made. Also, after learning of a mobile phone operation, the police staked out the company from which the phones were being stolen and apprehended several people. Finally, through information obtained from the shoplifters, three homicides were solved.

All in all, a pretty tidy operation. Back in the sheriff's office, you can picture the Hollywood ending. The undercover men finish typing their reports and slip their files into the file cabinet. They're grinning—just a little bit--as they put their feet up and have a leisurely cup of java.

J & O Clothiers. Case closed. Roll the credits.

* Lew Shealy is now VP of Loss Prevention at Eckerd Drug Company, a chain based in Largo, Florida.



# APPENDIX

| | PARTICIPANTS BY SEGMENT OF RETAIL | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | All Participants | | Department Stores | | Drug Chains | | General Merchandise Mass Merchants | | Specialty Apparel | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| Total number of survey participants | 160 | 160 | 22 | 22 | 10 | 10 | 27 | 27 | 21 | 21 |
| **AT RISK** | | | | | | | | | | |
| Average shrinkage percent | 1.91% (109) | 1.88% (106) | 2.18% (21) | 2.37% (21) | 2.33% (6) | 2.18% (6) | 1.82% (26) | 1.80% (26) | 1.84% (19) | 1.67% (18) |
| **SHRINKAGE PERCENT BY RANGE** | | | | | | | | | | |
| Less than 1% | 0.65% (25) | 0.70% (23) | 0.93% (1) | 1.13% (1) | 0.89% (1) | 0.74% (1) | 0.67% (4) | 0.87% (4) | 0.76% (4) | 0.63% (4) |
| 1% to 2% | 1.60% (45) | 1.66% (45) | 1.71% (11) | 1.97% (11) | 1.8% (2) | 2.05% (2) | 1.62% (13) | 1.58% (13) | 1.61% (8) | 1.48% (8) |
| Greater than 2% | 3.08% (39) | 2.92% (37) | 2.91% (9) | 2.99% (9) | 3.16% (3) | 2.75% (3) | 2.61% (9) | 2.54% (9) | 2.72% (7) | 2.62% (6) |
| Total shrinkage dollars | $2,179 (105) | $1,936 (99) | $328 (21) | $346 (21) | $350 (6) | $213 (6) | $1,128 (25) | $1,079 (24) | $136 (19) | $79 (18) |
| **AT COST** | | | | | | | | | | |
| Average shrinkage percent | 1.20% (45) | 1.20% (41) | — — | — — | 2.13% (3) | 2.05% (3) | 1.01% (4) | 0.76% (3) | 1.85% (1) | — — |
| **SHRINKAGE PERCENT BY RANGE** | | | | | | | | | | |
| Less than .75% | 0.34% (19) | 0.35% (18) | — — | — — | — — | — — | 0.54% (2) | 0.61% (2) | — — | — — |
| .75% to 1.50% | 1.18% (14) | 1.20% (13) | — — | — — | 1.50% (1) | 1.50% (1) | 0.97% (1) | 1.07% (1) | — — | — — |
| Greater than 1.50% | 2.60% (12) | 2.74% (10) | — — | — — | 2.44% (2) | 2.33% (2) | 2.00% (1) | — — | 1.85% (1) | — — |
| Total shrinkage dollars | $710 (38) | $638 (35) | — — | — — | $91 (1) | $76 (1) | $260 (3) | $237 (3) | $1 (1) | — — |

The numbers in parentheses represent the number of companies responding to this question.

# APPENDIX

| | | | | | | | PARTICIPANTS BY 1989 SALES VOLUME | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Specialty Hardlines | | Supermarkets | | Direct Mail/ Mail Order/ Specialty Other | | Under $100 | | $100 to $399 | | $400 to $999 | | $1,000 or more | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| | 37 | 37 | 19 | 19 | 24 | 24 | 53 | 53 | 42 | 42 | 27 | 27 | 38 | 38 |
| | 1.98% (12) | 1.58% (10) | 0.93% (11) | 1.05% (11) | 2.32% (14) | 2.28% (14) | 1.62% (30) | 1.52% (29) | 2.17% (31) | 2.24% (30) | 1.67% (22) | 1.60% (21) | 2.15% (26) | 2.08% (25) |
| | 0.63% (5) | 0.50% (4) | 0.50% (6) | 0.69% (5) | 0.66% (4) | 0.71% (4) | 0.70% (9) | 0.67% (11) | 0.58% (7) | 0.62% (6) | 0.61% (6) | 0.61% (5) | 0.75% (3) | 0.64% (3) |
| | 1.36% (2) | 1.41% (2) | 1.45% (5) | 1.60% (5) | 1.44% (4) | 1.43% (4) | 1.57% (13) | 1.52% (10) | 1.67% (13) | 1.61% (8) | 1.62% (9) | 1.55% (10) | 1.54% (10) | 1.56% (11) |
| | 3.57% (5) | 2.74% (4) | — — | — — | 4.02% (6) | 3.91% (6) | 2.73% (8) | 2.69% (8) | 3.78% (11) | 3.20% (6) | 2.64% (7) | 2.50% (6) | 2.94% (13) | 2.99% (11) |
| | $62 (10) | $56 (8) | $34 (11) | $24 (9) | $142 (13) | $140 (13) | $19 (30) | $15 (27) | $149 (29) | $141 (29) | $230 (21) | $167 (19) | $1,782 (25) | $1,614 (24) |
| | 0.70% (21) | 0.67% (20) | 1.38% (7) | 1.50% (6) | 1.94% (9) | 2.05% (9) | 1.16% (18) | 0.96% (16) | 0.93% (11) | 1.08% (10) | 1.31% (4) | 1.45% (4) | 1.48% (12) | 1.57% (11) |
| | 0.31% (14) | 0.30% (13) | 0.56% (1) | 0.73% (1) | 0.20% (2) | 0.19% (2) | 0.31% (10) | 0.23% (16) | 0.25% (5) | 0.21% (4) | 0.43% (2) | 0.56% (2) | 0.61% (2) | 0.64% (2) |
| | 1.12% (5) | 1.10% (5) | 1.09% (3) | 1.13% (2) | 1.30% (4) | 1.33% (4) | 1.10% (3) | 1.08% (3) | 1.15% (5) | 1.15% (5) | 1.39% (1) | — (1) | 1.22% (5) | 1.23% (2) |
| | 2.40% (2) | 1.94% (2) | 1.94% (3) | 2.01% (3) | 3.95% (3) | 4.26% (3) | 2.88% (5) | 3.26% (3) | 3.30% (1) | 4.22% (1) | 3.00% (1) | 2.34% (2) | 2.10% (5) | 1.94% (7) |
| | $57 (20) | $65 (19) | $212 (6) | $172 (5) | $89 (7) | $88 (7) | $4 (15) | $3 (14) | $12 (8) | $10 (7) | $33 (4) | $36 (4) | $661 (11) | $589 (10) |

# APPENDIX

## THE FOUR MOST EFFECTIVE SECURITY DEVICES

| | PARTICIPANTS BY SEGMENT OF RETAIL | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | All Participants | | | | Department Stores | | | | Drug Chains | | | |
| | #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 |
| Number of participants | 160 | 160 | 160 | 160 | 22 | 22 | 2 | 22 | 10 | 10 | 10 | 10 |
| Number of responses to this question | 149 | 147 | 144 | 136 | 21 | 21 | 21 | 20 | 10 | 10 | 10 | 9 |
| **Security devices:** | | | | | | | | | | | | |
| Training programs | 46 | 26 | 25 | 9 | 4 | 4 | 5 | 2 | 5 | 3 | 2 | — |
| Guards/detectives | 27 | 21 | 16 | 16 | 5 | 6 | 3 | 2 | 2 | 1 | 1 | 1 |
| Electronic/magnetic tags | 25 | 11 | 11 | 6 | 6 | 2 | 1 | 2 | 2 | — | 1 | 2 |
| POS systems | 20 | 24 | 17 | 20 | 1 | 5 | — | 4 | 1 | 4 | 1 | 1 |
| Concealed TV monitors | 10 | 14 | 16 | 9 | 4 | 1 | 4 | 1 | — | — | 1 | 1 |
| Lock and chain | 8 | 10 | 12 | 8 | — | 1 | 1 | — | — | — | — | — |
| Limited access areas | 7 | 9 | 12 | 12 | — | — | — | — | — | — | 1 | 2 |
| Observation booths | 2 | 3 | 1 | 4 | — | — | 1 | — | — | — | — | — |
| Incentive for reporting theft | 2 | 14 | 18 | 20 | — | 1 | 5 | 4 | — | 2 | — | 1 |
| Fitting room attendants | 1 | 4 | 4 | 7 | — | 1 | 1 | 3 | — | — | — | — |
| Employee package control programs | 1 | 6 | 7 | 16 | 1 | — | — | 2 | — | — | 2 | — |
| Mirrors | — | 5 | 5 | 9 | — | — | — | — | — | — | 1 | 1 |

## THE FOUR LEAST EFFECTIVE SECURITY DEVICES

| | PARTICIPANTS BY SEGMENT OF RETAIL | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | All Participants | | | | Department Stores | | | | Drug Chains | | | |
| | #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 |
| Total participants | 160 | 160 | 160 | 160 | 22 | 22 | 2 | 22 | 10 | 10 | 10 | 10 |
| Number of responses to this question | 125 | 119 | 116 | 109 | 17 | 16 | 16 | 16 | 10 | 9 | 8 | 8 |
| **Security devices:** | | | | | | | | | | | | |
| Mirrors | 49 | 10 | 17 | 11 | 11 | 2 | 1 | — | 2 | — | 3 | — |
| Observation booths | 12 | 18 | 11 | 15 | — | 1 | 2 | 5 | 2 | 2 | — | 2 |
| Electronic/magnetic tags | 10 | 8 | 10 | 2 | 1 | — | — | — | 1 | — | — | — |
| Lock and chain | 10 | 17 | 21 | 11 | 2 | 3 | 7 | — | 1 | 3 | 1 | 2 |
| Fitting room attendants | 10 | 5 | 9 | 6 | 1 | 1 | 1 | 1 | — | — | 1 | 2 |
| Concealed TV monitors | 9 | 8 | 5 | 4 | — | 2 | — | — | — | — | — | 1 |
| Limited access areas | 8 | 20 | 18 | 11 | 1 | 5 | 3 | 3 | 1 | — | 3 | — |
| Guards/detectives | 5 | 10 | 9 | 7 | — | — | 1 | — | 3 | — | — | — |
| Training programs | 4 | 1 | 2 | 5 | — | — | — | — | — | — | — | — |
| Incentive for reporting theft | 4 | 8 | 4 | 19 | — | — | — | 4 | — | 3 | — | 1 |
| Employee package control programs | 4 | 6 | 9 | 11 | 1 | — | 1 | 2 | — | 1 | — | — |
| POS systems | — | 8 | 1 | 7 | — | 1 | — | 1 | — | — | — | — |

# APPENDIX

## PARTICIPANTS BY SEGMENT OF RETAIL

| General Merchandise/ Mass Merchants | | | | Specialty Apparel | | | | Specialty Hardlines | | | | Supermarkets | | | | Direct Mail/ Mail Order/ Specialty Other | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 |
| 27 | 27 | 27 | 27 | 21 | 21 | 21 | 21 | 37 | 37 | 37 | 37 | 19 | 19 | 19 | 19 | 24 | 24 | 24 | 24 |
| 26 | 26 | 26 | 26 | 21 | 21 | 20 | 20 | 32 | 32 | 30 | 28 | 16 | 15 | 15 | 14 | 23 | 22 | 22 | 19 |
| | | | | | | | | | | | | | | | | | | | |
| 11 | 5 | 2 | 3 | 6 | 3 | 4 | — | 8 | 5 | 5 | 1 | 5 | 2 | 2 | 2 | 7 | 4 | 5 | 1 |
| 3 | 5 | 2 | 3 | 1 | 2 | — | 2 | 6 | 3 | 4 | 3 | 7 | 2 | 3 | 1 | 3 | 2 | 3 | 4 |
| 3 | 4 | 1 | 1 | 7 | 4 | 2 | 1 | 2 | — | 3 | — | 1 | 1 | 1 | — | 4 | — | 2 | — |
| 4 | 2 | 3 | 3 | 2 | 2 | 6 | 3 | 4 | 5 | 2 | 6 | 1 | 3 | 2 | 1 | 7 | 3 | 3 | 2 |
| 3 | 4 | 6 | 2 | — | 2 | 1 | 1 | 2 | 1 | 1 | 2 | 1 | 1 | 1 | 1 | — | 5 | 2 | 1 |
| — | — | 2 | — | 2 | 3 | 3 | 1 | 5 | 4 | 3 | 2 | 1 | 1 | 2 | 1 | — | 1 | 1 | 4 |
| 1 | 2 | 2 | — | 2 | — | 1 | — | 3 | 5 | 5 | 5 | — | 1 | 1 | 2 | 1 | 1 | 2 | 3 |
| 1 | — | — | 3 | — | — | — | — | 1 | 1 | — | 1 | — | 1 | — | — | — | 1 | — | — |
| — | 3 | 4 | 4 | — | 1 | 2 | 3 | 1 | 5 | 5 | 4 | — | 1 | 1 | 2 | 1 | 1 | 1 | 2 |
| — | — | 3 | 2 | 1 | 3 | — | 2 | — | — | — | — | — | — | — | — | — | — | — | — |
| — | — | 1 | 3 | — | 1 | 1 | 6 | — | 2 | — | 2 | — | — | 1 | 2 | — | 3 | 2 | 1 |
| — | 1 | — | 2 | — | — | — | 1 | — | 1 | 2 | 2 | — | 2 | 1 | 2 | — | 1 | 1 | 1 |

## PARTICIPANTS BY SEGMENT OF RETAIL

| General Merchandise/ Mass Merchants | | | | Specialty Apparel | | | | Specialty Hardlines | | | | Supermarkets | | | | Direct Mail/ Mail Order/ Specialty Other | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 | #1 | #2 | #3 | #4 |
| 27 | 27 | 27 | 27 | 21 | 21 | 21 | 21 | 37 | 37 | 37 | 37 | 19 | 19 | 19 | 19 | 24 | 24 | 24 | 24 |
| 22 | 22 | 21 | 19 | 19 | 16 | 16 | 14 | 27 | 26 | 25 | 24 | 13 | 13 | 13 | 12 | 17 | 17 | 17 | 16 |
| | | | | | | | | | | | | | | | | | | | |
| 13 | 1 | 1 | 3 | 9 | 2 | — | 2 | 7 | [illegible] | 7 | 3 | 3 | 1 | 1 | — | 4 | 1 | 4 | 3 |
| 3 | 4 | 2 | 3 | 3 | 3 | — | 1 | 3 | 4 | 3 | 1 | 1 | 1 | 3 | 1 | — | 3 | 1 | 2 |
| — | — | 4 | 1 | — | 1 | 1 | — | 4 | 4 | 3 | 1 | 1 | 1 | 1 | — | 3 | 2 | 1 | — |
| 1 | 4 | 5 | 2 | 1 | 1 | 2 | 1 | 2 | 2 | 2 | 2 | 1 | 1 | 3 | 2 | 2 | 3 | 1 | 2 |
| 2 | 2 | 3 | — | 1 | — | 2 | 1 | 3 | 2 | 1 | 1 | 1 | — | 1 | — | 2 | — | — | 1 |
| 1 | 1 | 2 | — | 1 | 1 | 2 | — | 4 | 2 | — | 3 | 3 | 2 | — | — | — | — | 1 | — |
| 1 | 6 | — | 1 | 2 | 2 | 4 | 1 | 1 | — | 2 | 4 | 1 | 4 | 1 | 2 | 1 | 2 | 5 | — |
| — | 3 | — | — | 1 | 3 | 3 | 3 | — | 1 | 3 | 1 | — | 1 | 1 | 1 | 1 | 2 | 1 | 2 |
| — | — | — | 1 | 1 | — | — | 2 | 2 | 1 | 2 | 1 | — | — | — | 1 | 1 | — | — | — |
| 1 | 1 | 1 | 5 | — | 2 | 1 | 1 | 1 | — | — | 3 | 1 | 1 | 1 | 2 | 1 | 1 | 1 | 3 |
| — | — | 3 | 3 | — | — | — | 1 | — | 4 | 2 | 2 | 1 | — | 1 | 1 | 2 | 1 | 2 | 2 |
| — | — | — | — | — | 1 | 1 | 1 | — | 3 | — | 2 | — | 1 | — | 2 | — | 2 | — | 1 |

# APPENDIX

## INVENTORY COSTING METHODS USED BY RETAILERS

| | PARTICIPANTS BY SEGMENT OF RETAIL | | | | | |
|---|---|---|---|---|---|---|
| | All Participants | | Department Stores | | Drug Chains | |
| | Stores | Warehouse/DCs | Stores | Warehouse/DCs | Stores | Warehouse/DCs |
| Total number of survey participants | 160 | 160 | 22 | 22 | 10 | 10 |
| Number of responses to this question | 158 | 140 | 22 | 21 | 10 | 10 |
| **Retail inventory method** | | | | | | |
| LIFO | 58 | 34 | 13 | 9 | 4 | 2 |
| FIFO | 23 | 15 | 3 | 3 | 2 | 1 |
| Average | 31 | 28 | 5 | 4 | 1 | 1 |
| Total retail inventory method | 112 | 77 | 21 | 16 | 7 | 4 |
| **Cost method** | | | | | | |
| LIFO | 28 | 37 | 3 | 5 | 4 | 5 |
| FIFO | 23 | 27 | — | — | — | 1 |
| Average | 17 | 14 | 1 | 2 | — | — |
| Total cost method | 68 | 78 | 4 | 7 | 4 | 6 |

## APPREHENSIONS AND DOLLARS RECOVERED

| | PARTICIPANTS BY SEGMENT OF RETAIL | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | All Participants | | | | Department Stores | | | | Drug Chains | | | |
| | Customers | | Employees | | Customers | | Employees | | Customers | | Employees | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| Total Number of Survey Participants | 160 | 160 | 160 | 160 | 22 | 22 | 22 | 22 | 10 | 10 | 10 | 10 |
| Total Aggregate Apprehensions | 638,504 (128) | 540,857 (119) | 49,916 (138) | 44,306 (128) | 94,524 (21) | 77,626 (19) | 6,064 (21) | 7,892 (19) | 82,696 (8) | 39,294 (6) | 9,082 (9) | 5,754 (8) |
| Value of Merchandise Recovered at Retail *(in $ thousands)* | $33,916 (112) | $27,305 (101) | $27,591 (121) | $24,161 (111) | $6,145 (18) | $4,841 (18) | $4,445 (19) | $3,627 (19) | $2,466 (9) | $526 (6) | $3,061 (8) | $2,272 (8) |
| **Average Value of Apprehension** | | | | | | | | | | | | |
| Recovered per Apprehension at Retail | $196 (95) | $186 (83) | $1,350 (109) | $1,227 (97) | $165 (18) | $147 (17) | $650 (19) | $489 (17) | $48 (7) | $53 (4) | $349 (7) | $440 (7) |
| Apprehension of Females | 128,752 (83) | N/A | 12,732 (93) | N/A | 42,629 (17) | N/A | 3,151 (17) | N/A | 3,173 (4) | N/A | 1,421 (4) | N/A |
| Apprehension of Males | 124,192 (87) | N/A | 9,826 (100) | N/A | 36,079 (17) | N/A | 2,394 (17) | N/A | 2,565 (4) | N/A | 675 (4) | N/A |

The numbers in parentheses represent the number of companies responding to this question.

# APPENDIX

| | General Merchandise/ Mass Merchandise | | Specialty Apparel | | Specialty Hardlines | | Supermarkets | | Direct Mail/ Mail Order/ Specialty Other | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stores | Warehouse/DCs | Stores | Warehouse/DCs | Stores | Warehouse/DCs | Stores | Warehouse/DCs | Stores | Warehouse/DCs |
| | 27 | 27 | 21 | 21 | 37 | 37 | 19 | 19 | 24 | 24 |
| | 26 | 22 | 21 | 21 | 37 | 31 | 19 | 16 | 23 | 19 |
| | 17 | 10 | 6 | 4 | 5 | 3 | 8 | 2 | 5 | 4 |
| | 2 | — | 5 | 5 | 4 | 2 | 3 | 1 | 4 | 3 |
| | 6 | 6 | 8 | 9 | 3 | 1 | 3 | 4 | 5 | 3 |
| | 25 | 16 | 19 | 18 | 12 | 6 | 14 | 7 | 14 | 10 |
| | 3 | 6 | 1 | 1 | 8 | 9 | 5 | 7 | 4 | 4 |
| | 1 | 1 | 2 | 3 | 12 | 13 | 3 | 4 | 5 | 5 |
| | 1 | 1 | 2 | 1 | 8 | 6 | 1 | 1 | 4 | 3 |
| | 5 | 8 | 5 | 5 | 28 | 28 | 9 | 12 | 13 | 12 |

| | General Merchandise/ Mass Merchants | | | | Specialty Apparel | | | | Specialty Hardlines | | | | Supermarkets | | | | Direct Mail/Mail Order/ Specialty Other | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Customers | | Employees | | Customers | | Employees | | Customers | | Employees | | Customers | | Employees | | Customers | | Employees | |
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| | 27 | 27 | 27 | 27 | 21 | 21 | 21 | 21 | 37 | 37 | 37 | 37 | 19 | 19 | 19 | 19 | 24 | 24 | 24 | 24 |
| | 416,555 (21) | 386,979 (21) | 26,245 (22) | 23,472 (21) | 1,211 (15) | 1,290 (15) | 781 (19) | 618 (18) | 1,243 (32) | 824 (29) | 1,321 (33) | 931 (30) | 27,611 (13) | 24,063 (12) | 1,570 (14) | 1,278 (13) | 14,664 (18) | 10,781 (17) | 4,853 (20) | 4,361 (19) |
| | $22,606 (21) | $19,545 (19) | $14,975 (21) | $14,165 (19) | $783 (15) | $946 (13) | $631 (17) | $466 (15) | $312 (21) | $138 (20) | $1,759 (27) | $1,613 (25) | $751 (14) | $570 (13) | $253 (12) | $111 (10) | $853 (14) | $738 (12) | $2,466 (17) | $1,908 (15) |
| | $87 (21) | $107 (19) | $801 (20) | $911 (19) | $225 (12) | $233 (11) | $3,044 (16) | $2,061 (14) | $375 (12) | $302 (12) | $2,378 (21) | $2,585 (19) | $107 (11) | $17 (10) | $592 (9) | $374 (7) | $367 (14) | $434 (10) | $728 (17) | $697 (14) |
| | 66,198 (15) | N/A | 5,143 (14) | N/A | 684 (12) | N/A | 417 (14) | N/A | 120 (13) | N/A | 362 (20) | N/A | 9,335 (8) | N/A | 462 (9) | N/A | 6,613 (14) | N/A | 1,776 (15) | N/A |
| | 65,363 (15) | N/A | 3,774 (14) | N/A | 407 (11) | N/A | 340 (17) | N/A | 324 (18) | N/A | 390 (24) | N/A | 12,431 (8) | N/A | 537 (9) | N/A | 7,023 (14) | N/A | 1,716 (15) | N/A |

# APPENDIX

## ANALYSIS OF CIVIL RESTITUTION ACTIVITIES BY RETAILER

| | All Participants | Department Stores | Drug Chains |
|---|---|---|---|
| Total number of survey participants | 160 | 22 | 10 |
| | | | |
| Number of responses to this question | 159 | 21 | 10 |
| Company seeks civil restitution | 88 | 12 | 7 |
| Company does not seek civil restitution | 71 | 9 | 3 |
| | | | |
| Number of responses to this question | 67 | 9 | 7 |
| Total recoveries ($ thousands) | $7,038 | $1,176 | $1,714 |
| Average recoveries | $105 | $131 | $245 |
| | | | |
| Number of responses to this question | 59 | 7 | 6 |
| Total attempted | 75,608 | 12,356 | 20,379 |
| Number of responses to this question | 52 | 7 | 6 |
| Total settled | 25,855 | 6,527 | 12,668 |

# APPENDIX

## PARTICIPANTS BY TYPE OF RETAILER

| | General Merchandise/ Mass Merchants | Specialty Apparel | Specialty Hardlines | Supermarkets | Direct Mail/ Mail Order/ Specialty Other |
|---|---|---|---|---|---|
| | 27 | 21 | 37 | 19 | 24 |
| | 27 | 21 | 37 | 19 | 24 |
| | 21 | 8 | 21 | 7 | 12 |
| | 6 | 13 | 16 | 12 | 12 |
| | 14 | 7 | 15 | 6 | 9 |
| | $3,460 | $123 | $147 | $281 | $137 |
| | $247 | $18 | $10 | $47 | $15 |
| | 13 | 7 | 16 | 4 | 6 |
| | 32,328 | 77 | 219 | 8,269 | 1,980 |
| | 11 | 5 | 14 | 4 | 5 |
| | 3,062 | 34 | 164 | 2,854 | 546 |

## LOSS PREVENTION CAPITAL EXPENDITURES IN 1989

| | Participants by segment of retailer | | | | | | | Participants by 1989 Sales Volume | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | All Participants | Department Stores | Drug Chains | General Merchandise/ Mass Merchants | Specialty Apparel | Specialty Hardlines | Supermarkets | All Participants | Less than $100 million | $100-$399 million | $400-$999 million | $1 billion or more |
| Number of Participants | 160 | 22 | 10 | 27 | 21 | 37 | 19 | 160 | 53 | 42 | 27 | 38 |
| Number of Responses to This Question | 131 | 19 | 9 | 26 | 18 | 29 | 13 | 131 | 36 | 37 | 25 | 33 |
| Average Capital Expenditures | $340 | $365 | $463 | $696 | $312 | $73 | $139 | $340 | $24 | $101 | $287 | $994 |
| Total Capital Expenditures | $44,573 | $6,936 | $4,167 | $18,103 | $5,621 | $2,114 | $1,810 | $44,573 | $864 | $3,720 | $7,179 | $32,810 |
| Analysis of Expenditures | % | % | % | % | % | % | % | % | % | % | % | % |
| Electronic Article Surveillance | 38 | 20 | 57 | 42 | 76 | 12 | 3 | 38 | 27 | 30 | 53 | 36 |
| Other Electronic Equipment | 30 | 63 | 15 | 34 | 8 | 25 | 35 | 30 | 50 | 43 | 24 | 25 |
| Alarms | 27 | 15 | 18 | 24 | 14 | 63 | 61 | 27 | 9 | 26 | 22 | 33 |
| Other | 5 | 2 | 18 | — | 2 | — | 1 | 5 | 14 | 1 | 2 | 6 |

# Good Night.

# And it will be another good night because these stores are protected by a Dynaflair security grille.

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Ernst & Young is the preeminent worldwide professional services firm serving the retail industry. Nationwide, Ernst & Young provides services to more than 1,000 retail companies in various segments of retailing.

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For further information on this study or any of Ernst & Young's services, contact: Stephanie M. Shern, Partner and National Director of Retail Services, Ernst & Young, 277 Park Ave., New York, N.Y. 10172, (212) 773-3120.

Chain Store Age EXECUTIVE

*Chain Store Age Executive* is the leading publication serving retail headquarters management. A monthly newsmagazine since 1925, *Chain Store Age Executive* reports and analyzes trends and strategies in the following areas:

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For more information, contact John S. Rapuzzi, Vice President/Publisher, *Chain Store Age Executive*, 425 Park Ave., New York, N.Y. 10022, (212) 371-9400.

IMRA

The International Mass Retail Association (IMRA) is an association representing more than 700 companies in the mass merchandising industry. The association keeps its members current on retail, business and governmental matters through publication of a monthly newsletter and sponsorship of meetings, seminars and roundtables.

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Dynaflair Corporation is the leading supplier of quality folding grilles and closures in North America. More than 100,000 store entrances throughout the United States and Canada carry the Dynaflair label. In addition, security grills are provided for individual departments such as in-store pharmacies.

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